BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAIʻI

In the Matter of the Application of HAWAIIAN ELECTRIC COMPANY, INC. HAWAIʻI ELECTRIC LIGHT COMPANY, INC. and MAUI ELECTRIC COMPANY, LIMITED For Approval to Recover Deferred Costs Associated with the COVID-19 Pandemic Emergency.	DOCKET NO.

APPLICATION OF
HAWAIIAN ELECTRIC COMPANY, INC.,
HAWAIʻI ELECTRIC LIGHT COMPANY, INC. AND
MAUI ELECTRIC COMPANY, LIMITED

EXHIBITS A-I

VERIFICATION

AND

CERTIFICATE OF SERVICE

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APPLICATION

TO THE HONORABLE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAIʻI:

By this Application, Hawaiian Electric Company, Inc. ("Hawaiian Electric"), Hawaiʻi Electric Light Company, Inc. ("Hawaiʻi Electric Light") and Maui Electric Company, Limited ("Maui Electric") (jointly referred to as "the Hawaiian Electric Companies" or "the Companies") respectfully request Commission approval to recover costs associated with the COVID-19 pandemic for which the Commission previously authorized deferral in Non-Docketed Order Nos. 37125,[1] 37153,[2] 37189,[3] 37251,[4] and 37284,[5] Order Nos. 37506[6] and 37667[7] issued in Docket No. 2020-0209, and Decision and Order ("D&O") Nos. 37192,[8] 37666,[9] and 37994[10] issued in Docket No. 2020-0069. The Companies respectfully request recovery of the deferred

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1 Order No. 37125 (non-docketed) ("Order 37125") issued on May 4, 2020, Paragraph ("Para.") 2, at 5.
2 Order No. 37153 (non-docketed) ("Order 37153") issued on May 28, 2020, Para. 2, 5 at 3-4.
3 Order No. 37189 (non-docketed) ("Order 37189") issued on June 26, 2020, Para. 2, 6, at 2, 4-5.
4 Order No. 37251 (non-docketed) ("Order 37251") issued on July 31, 2020, Para. 2, 6, at 4-5.
5 Order No. 37284 (non-docketed) ("Order 37284") issued on August 24, 2020, Para. 2,4 at 2-3.
6 Order No. 37506 ("Order 37506") issued on December 22, 2020 in Docket No. 2020-0209, Para. 4 at 7-8.
7 Order No. 37667 ("Order 37667") issued on March 10, 2021 in Docket No. 2020-0209, Para. 4 at 6.
8 D&O No. 37192 ("D&O 37192") issued on June 30, 2020 in Docket No. 2020-0069, Ordering Para. 1, at 11.
9 D&O No. 37666 ("D&O 37666") issued on March 8, 2021 in Docket No. 2020-0069, Ordering Para. 1, at 12.
10 D&O No. 37994 ("D&O 37994") issued on October 1, 2021 in Docket No. 2020-0069, Ordering Para. 1, at 18.

costs through the exogenous events factor ("Z-Factor") established in the Performance-Based Regulation framework ("PBR Framework") and pursuant to the recovery plan proposed herein.

I. EXECUTIVE SUMMARY

In March 2020, in response to the effects of the unprecedented COVID-19 pandemic emergency on Hawai'i's communities and its economy, the Hawaiian Electric Companies suspended electric service disconnections for both residential and business customers and subsequently filed an application to defer resulting costs. The Companies' request stated that a separate application to recover deferred costs would be filed at an undetermined future date. Soon after, in May 2020, consistent with the state of emergency declared by Governor Ige, the Commission ordered all regulated utilities to suspend disconnections and authorized each to establish regulatory assets to record costs resulting from the suspension of disconnections. The Commission approved the Hawaiian Electric Companies' pandemic cost deferral request on June 30, 2020. Ultimately, the Companies were allowed to defer substantial COVID-19 pandemic related costs incurred through December 31, 2021.

The Companies' disconnection suspension and related customer assistance efforts ensured that public interest was served and tens of thousands of customers retained electric service for nearly two years during the pandemic emergency. More specifically, service disconnections were suspended for roughly 22,000 customers over a span of more than 20 months. However, these steps, along with multiple other COVID-19 pandemic-related economic impacts, have resulted in the Companies incurring (and deferring) tens of millions of dollars in bad debt and other expenses.

At the same time, the Companies took steps to moderate economic impact on customers in general, provided shareholder and charitable funds to reduce customer debt obligations, and established a task force dedicated to educating, coordinating and directing eligible customers to available sources of assistance. These efforts, some of which continue today, included:

- Zero Rate Increase Commitment: At the onset, acknowledging the expected onset of the COVID-19 pandemic and broad economic impacts on residents and businesses, Hawaiian Electric cut its rate request to zero in its 2020 test year rate case even as it continued to invest in and maintain the electric system.[11]

- Customer Assistance and Support: The Companies provided assistance and support for customers, including navigating and connecting them with available state and federal sources of financial assistance, provided flexible longer-term payment options, enhanced and increased customer outreach, and implemented new programs such as the Low-to Moderate Income ("LMI") Advisory group while providing essential electric service to customers.[12]

- Shareholder-Funded Customer Debt Relief and Assistance:

  - The Companies issued $2.0 million (i.e., $1.4 million for Hawaiian Electric, $0.3 million for Hawai'i Electric Light, and $0.3 million for Maui Electric) in Kokua Fund one-time bill credits in January 2022 to past-due customers who struggled to pay their electric bill during the COVID-19 pandemic.[13]

  - The Companies were the founding sponsor of Aloha United Way's Hawaii Utility Bill Assistance Program in 2021, pledging $2.0 million in shareholder money from their parent company, Hawaiian Electric Industries ("HEI"), to help households pay electric, water, sewer and gas bills.[14]

The Companies also have and will make significant adjustments and concessions to

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[11] *See* the Parties' Joint Stipulated Settlement Letter, at 1-2, Exhibit 1, at 4, filed on May 27, 2020 in Docket No. 2019-0085 which the Commission approved, subject to the Commission's clarifications regarding the treatment of the Management Audit savings commitment in the PBR Docket in Decision and Order No. 37387.

[12] The Companies provided details of the customer assistance programs in COVID-19 quarterly reports. *See*, for example, the COVID-19 quarterly reports for the fourth quarter of 2021, filed, subject to terms of Protective Order 37543, on February 1, 2022, and on a non-confidential basis on February 14, 2022 in Docket No. 2020-0209 ("Fourth Quarter 2021 Report"), Attachment 2.

[13] *See* Hawaiian Electric, Newsroom, *Hawaiian Electric to issue $2 million in 'Kokua Fund' one-time bill credits to past-due customers*, available at https://www.hawaiianelectric.com/hawaiian-electric-to-issue-2-million-in-kokua-fund-one-time-bill-credits-to-past-due-customers (Release Date: January 26, 2022). *See also* Exhibit A, line 2. This Kokua Fund Bill Credit Program utilized shareholder funds to provide a one-time credit of $90 to past-due balances for approximately 22,000 residential and business customers.

[14] *See* Hawaiian Electric, Newsroom, *Hawaiian Electric and Aloha United Way launch Hawaii Utility Bill Assistance Program*, available at https://www.hawaiianelectric.com/hawaiian-electric-and-aloha-united-way-launch-hawaii-utility-bill-assistance-program (Release Date: February 4, 2021). The Hawaii Utility Bill Assistance Program provided assistance to over 2,100 customers across the Hawaiian Electric Companies for a total of $1.2 million in additional assistance.

reduce the net amount of their deferred cost recovery request. These include:

- The Companies will offset the recovery of COVID-19-related costs with travel-related cost savings of $2.4 million (i.e., $1.9 million for Hawaiian Electric, $0.3 million for Hawai'i Electric Light, and $0.2 million for Maui Electric).[15]

- The Companies' recovery request could but does not include recovery of:

    - Non-collection of late payment fees of $2.2 million on a consolidated basis (i.e., $1.2 million for Hawaiian Electric, $0.6 million for Hawai'i Electric Light, and $0.3 million for Maui Electric);[16]

    - Carrying costs of the unamortized regulatory asset balance of the COVID-19 deferred costs up to the proposed three-year recovery period. The estimated amount for the period from March 2020 through May 2023 would be approximately $5.1 million, excluding revenue taxes, on a consolidated basis (i.e., $3.8 million for Hawaiian Electric, $0.6 million for Hawai'i Electric Light, and $0.7 million for Maui Electric); and

    - The return on the unamortized regulatory asset balance of the COVID-19 deferred costs over the proposed three-year recovery period. The estimated amount for the initial recovery period from June 2023 through May 2024 would be approximately $2.0 million, excluding revenue taxes, on a consolidated basis (i.e., $1.5 million for Hawaiian Electric, $0.2 million for Hawai'i Electric Light, and $0.3 million for Maui Electric).[17]

Although difficult to fully quantify, it is evident that the above efforts resulted in assisting customers and/or reducing the recovery amount the Companies are entitled to request by not less than $15.7 million. The resulting total COVID-19 deferred costs, net of cost savings realized, recorded as a regulatory asset, excluding non-collection of late payment fees, amount to $27,839,000 for the Hawaiian Electric Companies on a consolidated basis (separately,

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[15] *See* Exhibit A, line 12, Exhibit B, column (g), and Exhibit D, line 3.

[16] *See* Section VIII.B.4. *See also* Fourth Quarter 2021 Reports, Attachment 1 at 10; and First Quarter 2022 Reports, Attachment 1 at 3. Total may not add exactly due to rounding.

[17] *See* Section VIII.B.5), below, for further discussion. The estimated amounts foregone for both the carrying costs of and the return on the unamortized COVID-19 deferred cost regulatory asset are calculated by taking the average of the beginning and ending balances of the COVID-19 regulatory asset, net of the accumulated deferred income taxes ("ADIT"), for the respective years. The net amount is multiplied by the authorized rate of return on average rate base for Hawaiian Electric, Hawai'i Electric Light, and Maui Electric of 7.37%, 7.52%, and 7.43%, respectively, on a pretax basis.

$20,415,000 for Hawaiian Electric, $3,572,000 for Hawai'i Electric Light, $3,852,000 for Maui Electric).[18]

By this Application, as previously anticipated, the Companies seek recovery of the net deferred COVID-19 related costs through the Z-Factor of the Annual Revenue Adjustment ("ARA") in the PBR Framework. The Companies maintain that the deferred costs were incurred in serving the public interest, consistent with Commission direction and support, and the amount is reasonable.

In order to manage the cost recovery impact on customers, the Companies propose recovery of the deferred balances over a three-year period. Specifically, for the initial recovery period from June 2023 through May 2024, the Companies are requesting in this Application recovery based on actual costs incurred, net of cost savings realized, during the deferral period from March 2020 through December 2021 ("deferral period"), and are requesting to include such costs in the 2023 spring revenue report. Recovery for each subsequent year will likewise be based on actual costs (i.e., actual levels of resulting bad debt).[19]

Significantly, the Companies have also taken other unrelated cost reduction steps that, if approved, are expected to completely offset and exceed the bill impact from this recovery request over time. Specifically, in a separate application to be filed on this date, the Companies are requesting a modification to their pension tracking mechanisms to accommodate pension reforms and to flow through a portion of the expected net pension cost savings as a refund to customers during the remainder of the current five-year multi-year rate plan ("MRP"). The Companies expect that this net refund will more than offset the recovery amounts for the

[18] *See* Exhibit A, line 13.

[19] Because many customers are on long-term payment plans, certain actual bad debt amounts resulting from the deferred costs will not be determined until after 2022.

COVID-19 deferred costs for all three Companies over the remaining years of the MRP period, with Hawaiian Electric customers receiving the net refund beginning in 2023. The Companies estimate that Hawai'i Electric Light customers would receive the net pension cost savings refund in 2025 and Maui Electric customers beginning in 2024, which would offset the overall COVID-19 deferred cost recovery amount over time. The estimated average monthly bill impact for a typical residential customer using 500 kWh for each of the Companies for the initial recovery/refund period from June 1, 2023 through May 31, 2024 would be as follows:

	2023 Spring Revenue Report: Monthly Bill Impact (500 kWh) (Recovery/Refund Period: June 2023 through May 2024)		
	COVID-19 Deferred Cost Recovery (Incurred)[20] [a]	Pension Tracking Mechanisms Net Refund (Projected: Baseline Scenario)[21] [22] [b]	Net Bill Impact (Projected) [c] = [a]+[b]
Hawaiian Electric	$0.22	($0.68)	($0.46)
Hawai'i Electric Light	$0.06	$0	$0.06
Maui Electric	$0.31	$0	$0.31

II. REQUESTED APPROVALS

The Companies hereby respectfully request a decision and order approving:

1. Recovery of the COVID-19-related deferred costs, net of cost savings realized, not to exceed the amount of $27,839,000 for the Hawaiian Electric Companies on a consolidated basis (separately, $20,415,000 for Hawaiian Electric, $3,572,000 for Hawai'i Electric Light, $3,852,000 for Maui Electric) through the PBR Framework Z-Factor pursuant to the proposed three-year recovery plan set forth in Section VIII., herein.

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20 *See* Section IX.C below and Exhibit H.

21 *See* the Companies' Application for Approval to Modify Pension Tracking Mechanisms to be filed with the Commission on this date, Section V.5. and Exhibit 4, for details on refunds of pension costs to customers. In the same baseline scenario, there will not be any refund generated for Hawai'i Electric Light or Maui Electric in 2022 to be included in the 2023 spring revenue report because there is a regulatory asset that remains at the end of 2022.

22 The actual net savings to customers would vary according to the actual net periodic pension cost ("NPPC") and defined contribution ("DC" or "401(k)") costs.

2. The proposed accounting and ratemaking treatment as further described in Section IX., herein, including:

(a) Recovery of known amounts over a three-year recovery period from June 2023 through May 2026 and to include such amounts as a Z-Factor adjustment in the spring revenue reports filed no later than March 31, which allows the Revenue Balancing Account ("RBA") rates and target revenues to be effective June 1. Specifically,

1) Included in the 2023 spring revenue report is recovery of actual net write-offs,[23] less the amounts embedded in rates, during the June 2020 through December 2021 period, and other COVID-19 costs incurred, net of cost savings realized, during the deferral period from March 2020 through December 2021;

2) Included in the 2024 spring revenue report is recovery of known costs (i.e., net write-offs) incurred for calendar year 2022; and

3) Included in the 2025 spring revenue report is recovery of known costs (i.e., net write-offs) incurred for calendar year 2023 and the January through March 2024 period;

(b) Amortization of amounts approved for recovery in the spring revenue reports over the twelve-month period beginning June 1 to reduce the COVID-19 deferred cost regulatory asset balance.

(c) Recording a contra-regulatory asset for the amounts collected from customers for bills associated with the deferral period from March 2020 through December

[23] "Net write-offs" in this Application represent actual gross write-offs, net of recoveries for amounts previously written-off.

2021 that were previously considered uncollectable and these amounts will be netted against the COVID-19 deferred cost regulatory asset balance.

(d) Reporting on the COVID-19 deferred cost regulatory asset as part of the spring revenue reports, and ceasing further reporting on the COVID-19 deferred costs, which has been filed quarterly in accordance with Non-Docketed Orders 37125, 37153, 37189, 37251, and 37284, Orders 37506 and 37667 issued in Docket No. 2020-0209 and D&Os 37192, 37666 and 37994 issued in Docket No. 2020-0069.

3. Such other and further relief as may be just and equitable in the premises.

In order to ensure the financial statements are properly stated at December 31, 2022 and the Companies have sufficient time to incorporate the proposed changes into the 2023 spring revenue report filing, the Companies respectfully request that, if possible, the Commission approve this Application by December 30, 2022, or the latest by January 16, 2023.

III. APPLICANTS

Hawaiian Electric, whose principal place of business and whose executive offices are located at 1001 Bishop Street, Suite 2500, Honolulu, Hawaiʻi, is a corporation duly organized under the laws of the Kingdom of Hawaiʻi on or about October 13, 1891, and is now existing under and by virtue of the laws of the State of Hawaiʻi. Hawaiian Electric is an operating public utility engaged in the production, purchase, transmission, distribution and sale of electricity on the island of Oʻahu.

Hawaiʻi Electric Light, whose principal place of business and whose administrative offices are located at 1200 Kilauea Avenue, Hilo, Hawaiʻi, is a corporation duly organized under the laws of the Republic of Hawaiʻi on or about December 5, 1894, and now exists under and by virtue of the laws of the State of Hawaiʻi. Hawaiʻi Electric Light is an operating public utility engaged in the production, purchase, transmission, distribution and sale of electricity on the island of Hawai'i.

Maui Electric, whose principal place of business and whose administrative offices are located at 210 Kamehameha Avenue, Kahului, Maui, Hawai'i, is a corporation duly organized under the laws of the Territory of Hawai'i on or about April 28, 1921, and now exists under and by virtue of the laws of the State of Hawai'i. Maui Electric is an operating public utility engaged in the production, purchase, transmission, distribution and sale of electricity on the Islands of Maui, Moloka'i and Lana'i.

IV. CORRESPONDENCE

Correspondence and communications regarding this Application should be addressed to:

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V. STATUTORY PROVISION OR AUTHORITY

The Hawaiian Electric Companies submit this Application pursuant to Hawai'i Revised Statutes §§ 269-6 and 16 and § 16-601-74 of the Rules of Practice and Procedure before the Public Utilities Commission, Title 16, Chapter 601 of the Hawai'i Administrative Rules ("HAR"); D&O 37192, D&O 37666, and D&O 37994 approving deferred accounting treatment.

VI. EXHIBITS

The following exhibits are provided in support of this Application:

Exhibit A – Summary of COVID-19 Costs Reflected as a Regulatory Asset
Exhibit B – Recovery of COVID-19 Related Costs (Period: June 2023 - May 2024)
Exhibit C – 2021-2021 Uncollectible Accounts
Exhibit D – 2021-2022 Cost Savings

Exhibit E – S&P Global Market Intelligence, RRA Regulatory Focus, *Utility shut-off bans, while ending, continue to challenge utility financials* (December 28, 2021)
Exhibit F – Excerpts from S&P Global Market Intelligence, RRA Focus Notes (March 21, 2022), pages 1, 10
Exhibit G – COVID-19 Cost Recovery Requests Approved in Other Jurisdictions
Exhibit H – Revenue Requirement and Bill Impact
Exhibit I – Accounting Reconciliation for Bad Debt Regulatory Asset Balance

VII. <u>BACKGROUND</u>

A. Deferred Accounting Treatment of COVID-19 Costs

On April 22, 2020, the Companies filed in Docket No. 2020-0069 their Application ("Deferral Application") for approval to defer costs associated with the COVID-19 pandemic emergency, beginning from March 17, 2020, the date the Companies voluntarily and temporarily suspended service disconnections for both residential and commercial customers in response to the potential impacts of the pandemic on customers. In the Deferral Application, the Companies noted that during the pandemic emergency, electric utility service is deemed an essential service by the State of Hawai'i and that the Companies were proud to service their communities during these unprecedented times, but that maintaining financial integrity was critical to the Companies' ability to continue to serve. The Companies explained that they expected to incur significant costs in their response to the public health emergency, including bad debt expense resulting from higher than average levels of actual net write-offs of uncollectible accounts associated with the suspension of disconnects; non-collection of late payment fees to assist customers facing extreme economic pressures; increased financing costs; sequestration costs for mission critical employees; increased sanitation and decontamination costs; and other costs that could not be reasonably estimated or predicted given the extraordinary nature of the pandemic.

With respect to bad debt, the Companies noted:

> While the impact of the COVID-19 pandemic on uncollectible expense will depend on the severity and duration of the economic impact on

> customers, with the state's current unemployment rate at 37% and the pandemic's impact to the tourism industry, the Companies anticipate that bad debt expense will be substantially higher than average in 2020. Further, the impact to uncollectible expense will extend beyond 2020 depending on the duration of the pandemic and inherent lead times in the Companies' collection efforts.[24]

In order to ensure the Companies had adequate liquidity during this time, the Companies engaged in a number of capital raising activities to increase their borrowing capacity.

In support of deferral of COVID-19 related costs, the Companies argued that consistent with the deferral accounting standard, the catastrophic global health emergency and impact on the economy was outside the control of the Companies and that COVID-19 costs were anticipated to be of such magnitude to warrant relief. Because the severity and duration of the impacts of the COVID-19 pandemic were unknown, the Companies requested deferred accounting treatment through the end of 2020, with the ability to submit additional requests to continue deferred accounting treatment as necessary.

By Orders 37125, 37153, 37189, 37251, 37284, and 37506, the Commission determined that "based on extraordinary circumstances related to COVID-19, and on the Commission's expedited investigation into this matter[,]" Commission-regulated utilities, including the Companies, shall suspend disconnections,[25] as well as rules that prevent or condition re-connection of disconnected customers.[26] The Commission also emphasized that customers should continue paying their bills to the extent possible during this time, and noted that customers will still ultimately be responsible for paying Utility service billings accrued during the suspension.[27]

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[24] Deferral Application at 12.
[25] Order 37125 at 4, 7.
[26] *Id.* at 4.
[27] Order 37125 at Ordering Para. 8.

In Order 37125, the Commission also authorized each such utility to defer costs (and requiring them to record any savings) related to their suspension of disconnections. The Commission directed any utility booking regulatory assets consistent with Order 37125 to file quarterly reports as to certain information.[28] In Order 37506, the Commission established monthly reporting requirements and opened a repository docket, Docket No. 2020-0209.

By D&O 37192, issued on June 20, 2020, the Commission approved the Companies' request to defer costs associated with the COVID-19 pandemic, incurred from March 17, 2020, through December 31, 2020.[29] D&O 37192 also mandated that any request by the Companies to recover costs deferred as a result of COVID-19, both as authorized by D&O 37192 and by Orders 37125, 37153, and 37189, shall be filed as a separate, docketed application.[30] D&O 37192 further required additional information as part of the Companies' quarterly reporting detailing amounts booked to the regulatory assets.[31] Finally, D&O 37192 allowed the Companies to request an extension of the deferred accounting period beyond December 31, 2020.[32]

On October 30, 2020, the Companies filed their request to extend deferral accounting period to June 30, 2021. By D&O 37666, issued March 8, 2021, the Commission determined that the extraordinary relief requested was justified and approved the Companies' request to extend the deferred accounting period to June 30, 2021.[33]

On May 31, 2021, the disconnection moratorium ended.

On October 1, 2021, the Commission issued D&O 37994 approving the Companies'

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[28] Order 37189, Para. 6, at 4.
[29] D&O 37192, Ordering Para. 1.
[30] *Id.* at Ordering Para. 3.
[31] *id.* at Ordering Para. 2.
[32] *Id.* at 10.
[33] D&O 37666 at 11.

request to extend deferred accounting treatment beyond June 30, 2021, to December 31, 2021, filed on July 21, 2021. The Commission found that the Companies' quarterly and monthly financial reporting, coupled with the unknown duration of the Pandemic due in large part to the proliferation of the Delta variant, when considered in total, sufficiently demonstrated that Hawaiian Electric was experiencing extraordinary circumstances that are beyond its immediate control. The Commission further found that the magnitude of the circumstances Hawaiian Electric continues to experience as a result of the increasing bad-debt expense and other COVID-related costs, has been significant, and that the uncertainty of the end of the Pandemic contributes to the magnitude of the circumstances in which Hawaiian Electric finds itself.[34] Finally, with regard to recovery of deferred costs, the Commission noted:

> In the event Hawaiian Electric requests recovery of approved regulatory assets, the Commission will review the reasonableness of the request, its expected ratepayer impacts, the data, calculations, and methodologies informing the request, and other factors, in weighing that decision. At such time, Hawaiian Electric shall include with specificity, a description of how it plans to recover the deferred amounts, and the projected duration of said recovery plan. In any such future proceeding, the Consumer Advocate may raise questions regarding the reasonableness of any requested cost recovery and make recommendations regarding the time over which any potential recovery might be received.[35]

On December 22, 2021, the Companies notified the Commission that they did not intend to request an extension to the period to defer costs associated with the COVID-19 pandemic beyond December 31, 2021.

As discussed below, the deferred costs were prudently and reasonably incurred. In compliance with D&O 37666 and D&O 37994, this Application sets forth the expected ratepayer impacts, data calculations, methodologies, a description of the proposed plan to recover the

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[34] D&O 37994 at 16-17.

[35] D&O 37994 at 17-18 and D&O 37666 at 11-12.

deferred costs (through the Z-Factor), and the projected duration of the recovery plan. Accordingly, recovery of the deferred costs should be approved.

B. The Companies' Monthly and Quarterly COVID-19 Reporting

Pursuant to a number of aforementioned Orders[36] authorizing deferral of utility costs associated with COVID-19 pandemic, including costs related to suspension of disconnection, the Companies began to file the monthly and quarterly reports, in February 2021 and July 2020, respectively,[37] to provide the Commission with the information on financial effect of the disconnection suspension and related issues on the Companies and their customers, and customer outreach efforts, their financial condition, and details of the COVID-19 related costs and any savings realized that have been recorded in the regulatory assets.

In their COVID-19 quarterly reports for the first quarter of 2022 ("First Quarter 2022 Report"),[38] the Companies reported that with the increase in economic activity, the demand for electricity has increase from 2021 level, and in the first quarter of 2022, kWh sales were up 2.5% compared with the same quarter in 2021. Further, past due balances on customer accounts have increased and continue to increase with higher anticipated write-offs and higher bad debt expense. As compared to pre-COVID amounts, these past due balances in arrears greater than 30 days as of March 31, 2022 are nine times larger for residential customers and about 260% more for commercial customers. Similarly, the number of residential customers past due greater than 90 days increased by over four and a half times and almost two times for commercial

[36] *See* non-docketed Orders 37125, 37153, 37189, 37251, and 37284, Orders 37506 and 37667 issued in Docket No. 2020-0209, and D&O 37192, 37666, and 37994 issued in Docket No. 2020-0069.

[37] The Commission ended the Utility monthly reporting requirement outlined in Order 37506 and instead directed Utilities to file a Quarterly Customer Report by the 15th of the month immediately following each quarter, pursuant to the adjusted reporting requirements. *See* Order No. 38227 issued on February 11, 2022 in Docket 2020-0209, Ordering Para. 1-2 at 10-11.

[38] *See* First Quarter 2022 Report, Attachment 1, at 1-2, filed, subject to terms of Protective Order 37543, on May 2, 2022, which was filed on a non-confidential basis on May 9, 2022 in Docket No. 2020-0209.

customers. As of March 31, 2022, the total COVID-19 deferred cost regulatory asset balance, excluding non-collection of late payment fees, is $27,839,000 for the Hawaiian Electric Companies on a consolidated basis (i.e., $20,415,000 for Hawaiian Electric, $3,572,000 for Hawaiʻi Electric Light, $3,852,000 for Maui Electric).[39] These balances remain unchanged from December 31, 2021, when the deferral period ended.

C. PBR – Z-Factor

On December 23, 2020, the Commission issued Decision and Order No. 37507 ("D&O 37507") in Docket No. 2018-0088 establishing a new PBR Framework. The PBR Framework implemented a five-year MRP, during which the Companies' annual target revenues will be adjusted according to an index-driven ARA based on:

(1) an inflation factor ("I-Factor") to allow revenues to keep pace with inflation;
(2) a pre-determined annual productivity factor ("X-Factor");
(3) an exogenous events factor to allow the Companies to seek cost recovery for events outside of Hawaiian Electric's control that result in a severe impact ("Z-Factor"); and
(4) a stretch factor intended to share with customers the benefits and cost savings expected to accrue to the utility under the PBR Framework ("Customer Dividend" or "CD").[40, 41]

With regard to the Z-Factor, the Commission observed Party consensus that:

> an ex post Z-Factor is appropriate for inclusion in the ARA to address exogenous events not in the Companies' direct control. While there has been further debate as to what qualifies as an "exogenous event," the Parties are in general agreement that <u>such events are unanticipated, severe in impact, and not due to poor planning or negligence on behalf of the utility</u>. Overlapping examples include changes in tax law (e.g., the recent 2017 Tax Cuts and Jobs Act), natural disasters, and **<u>the recent global COVID-19 pandemic</u>**.

[39] *See* Exhibit A, line 13.
[40] *See* D&O 37507 at 30-31.
[41] Hawaiian Electric may supplement the annual ARA-determined revenues ("ARA Revenues") by seeking relief for extraordinary projects or programs though the Exceptional Project Recovery Mechanism ("EPRM"), which replaced the Major Projects Interim Recovery ("MPIR") mechanism, or by earning significant financial rewards for exemplary performance as provided through portfolio of Performance Incentive Mechanisms ("PIMs") and Shared Savings Mechanisms ("SSMs"). D&O 37507 at 31.

> There is also general consensus that threshold limits are appropriate before Z-Factor relief may be sought. In this regard, a number of Parties have adopted the Companies' proposed thresholds of <u>$4 million per event for HECO and $1 million per event for HELCO and MECO</u>.[42]

Largely following the consensus of the Parties, the Commission ultimately adopted a Z-Factor that would have the following characteristics:

- The Z-Factor shall begin with a neutral value;
- The Commission reserves discretion to evaluate Z-Factor requests on a case by case basis (rather than through an exclusive list), abiding by the general principle that the event must be <u>exogenous to the utility and beyond the reasonable control of utility management</u>;
- Z-Factor relief will not be available to address changes to the Companies' ROE or credit rating; and
- The Companies may file an application with the Commission to defer and/or seek recovery of costs (or how to address savings) associated with the Z-Factor event.[43]

Further, the Commission established the following eligibility criteria, when reviewing applications for Z-Factor cost recovery:

> 1) The costs must be attributable to events outside the control of a prudently operating electric utility;
> 2) The costs must be related to the exogenous event and outside the base upon which the rates were originally derived;
> 3) The cost impact of the event must be clearly outside of the base upon which current effective rates were derived;
> 4) The costs must be prudently incurred;
> 5) The costs must not be otherwise addressed by existing rates and/or other sources of cost recovery available to the utility (e.g., insurance, government aid, or indemnity from third parties); and
> 6) The costs related to each exogenous event must exceed the defined Materiality Threshold for the applicable utility [($4 million per event for HECO and $1 million per event for HELCO and MECO)].[44]

The costs associated with the COVID-19 pandemic are clearly related to an exogenous event outside of the control of the Companies, are in excess of cost amounts included in the

[42] D&O 37507 at 56-58 (footnotes omitted) (emphasis added).
[43] *See* D&O 37507 at 58-59.
[44] D&O 37507 at 59-60 (citing PBR Phase 2 SOP at 110).

approved revenue requirements in the prior rate cases, are prudently incurred, are not addressed by existing rates or other sources of cost recovery and are in excess of the materiality thresholds. Therefore, the deferred costs qualify for cost recovery through the Z-Factor. The sections below discuss in further detail the eligibility of the COVID-19 costs for recovery through the Z-Factor.

D. Recovery of Deferred COVID-19 Costs in Other Jurisdictions

Beginning in March 2020, many states and commissions, including the Hawai'i Public Utilities Commission, ordered moratoriums on disconnection of utility services due to nonpayment resulting from the COVID-19 pandemic. Like the Hawaiian Electric Companies, many other utilities also voluntarily adopted temporary restrictions on customer disconnection and collection of arrearages resulting from the pandemic. Data gathered by the Regulatory Research Authorities ("RRA"), a group within S&P Global Market Intelligence, found that as of March 3, 2022, the disconnection moratoriums had expired for all customers in 52 of the 53 state-level jurisdictions followed by the RRA.[45] These disconnection moratoriums had different time frames ranging from definitive end dates to tentative end dates, or which lasted until the governor declared the end of a state of emergency.

There are mechanisms in some jurisdictions that can, to some extent, implicitly address the costs and lost revenues for utilities associated with these disconnection moratoriums. However, many of these mechanisms, contain provisions that limit their ability to fully address the various COVID-19 impacts[46] due to the magnitude of the related costs. Therefore, many investor-owned utilities requested deferred accounting treatment from state commissions to track COVID-19-related incremental costs, including personal protective equipment ("PPE"), cleaning materials, medical testing, equipment to work from home, and bad debt, for future recovery. By

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[45] *See* Exhibit F at 2.
[46] *See* Exhibit E at 2-3.

RRA's count, as shown on the list on page 4 of Exhibit E, 38 state-level regulatory jurisdictions have authorized deferral of COVID-19-related costs on a generic or company-specific basis[47] and recording of such costs as a regulatory asset.

Some utilities have already begun to seek some form of rate relief for the prudently incurred costs associated with COVID-19. Some states have already ruled on what costs are recoverable and how utilities can recover (e.g., in the context of a rate proceeding filing and a recovery mechanism) (See Exhibit G for further information). The RRA article states:

> Thus far, recovery has not been particularly contentious. As expected, commissions are generally allowing recovery of any related deferrals to occur over a period of a few years, with varying treatment with respect to allowing a return on the unamortized balance. However, in some instances, regulators are requiring the companies to continue to defer some, if not all, of their COVID-19-related costs.[48]

VIII. RECOVERY PLAN AND MECHANISM

A. Recovery Plan

As noted above, recognizing the extraordinary circumstances related to the COVID-19 pandemic emergency, the Commission has approved the deferral of COVID-19-related costs through December 31, 2021.

Importantly, during the most difficult time of the pandemic and thereafter, the Companies have and continue to assist their customers and minimize COVID-19 deferred costs in a number of significant ways as summarized in Section I above. In addition, the Companies' request could but does not include recovery of: (1) non-collection of late payment fees of $2.2 million on a consolidated basis, (2) carrying costs of the unamortized regulatory asset balance of the COVID-19 deferred costs in the amount of approximately $5.1 million for the Companies, and (3) return

[47] *See* Exhibit E at 3-4.

[48] Exhibit E at 4. This RRA article provides additional information on how the cost recovery issue has been or is being addressed in other jurisdictions. *See also* Exhibit F at 2.

on the unamortized regulatory asset balance of the COVID-19 deferred costs, which would amount to approximately $2.0 million for the Companies, as further discussed below.

Net of the savings to customers resulting from these efforts, the total costs recorded as a regulatory asset, excluding non-collection of late payment fees, amounted to $27,839,000 for the Companies on a consolidated basis (i.e., $20,415,000 for Hawaiian Electric, $3,572,000 for Hawai‘i Electric Light, $3,852,000 for Maui Electric).[49]

To manage the impact on customers, the Companies seek recovery of the actual costs incurred, net of savings realized, instead of the estimated amount recorded in the COVID-19 deferred cost regulatory assets. The Companies propose to recover these costs through the Z-Factor over a three-year period from June 1, 2023 through May 31, 2026, using a staggered annual approach, as summarized in the following table:

Yr	Timing of Recovery	Category of Costs Requested for Recovery	Period of Costs Incurred	Recovery Amount	
				excluding revenue taxes	including revenue taxes
1	2023 Spring Revenue Report, RBA rates effective June 2023 - May 2024	• Net actual write-offs in excess of the bad debt expense included in rates	Jun 2020 - Dec 2021	$2,711,000 (consolidated)	$2,975,000 (consolidated)
		• Other COVID-19 costs, net of cost savings	Mar 2020 - Dec 2021	$470,000 (consolidated)	$516,000 (consolidated)
2	2024 Spring Revenue Report, RBA rates effective June 2024 - May 2025	• Net write-offs to be incurred	Jan 2022 - Dec 2022	To be determined	
3	2025 Spring Revenue Report, RBA rates effective June 2025 - May 2026	• Net write-offs to be incurred	Jan 2023 - Mar 2024	To be determined	

The three-year recovery period will allow the Companies to collect on arrears balances that were considered uncollectible for the March 2020 through December 2021 period from the respective customers that continue to be ultimately responsible for paying utility service billings

[49] *See* Exhibit A, line 13. Details of the COVID-19 deferred costs were described in the COVID-19 quarterly reports. *See also*, for example, the Fourth Quarter 2021 Reports, Attachment 1, at 4-10.

accrued during the suspension.[50] The multi-year recovery period would reduce the COVID-19 deferred cost regulatory asset balance and therefore reduce the recovery request from all customers. The Companies will track and record, in a contra-regulatory asset, payments received from customers for bills associated with the March 2020 through December 2021 period. Also, the three-year recovery period is consistent with the two- or three-year recovery period that the Pennsylvania Public Utility Commission and the Florida Public Service Commission have authorized for some utilities in their respective jurisdictions to use to recover and amortize COVID-19 related costs, including bad debt expenses.[51] A multi-year recovery period will spread recovery of the costs over a more manageable timeframe for customers.

Details of the recovery of the deferred amounts for the different cost categories are enumerated in the following sections.

B. Costs Requested for Recovery

1) Bad Debt Expenses

The total amount included in the regulatory asset attributed to the bad debt expense above the bad debt expense included in rates is $27,369,000 for the Companies on a consolidated basis (i.e., $19,967,000 for Hawaiian Electric, $3,674,000 for Hawaii Electric Light, and $3,728,000 for Maui Electric) as of December 31, 2021, as shown on Exhibit A, line 3. The Companies accrued this bad debt expense in the regulatory asset from March 2020 to December 2021.

At the start of the pandemic in March 2020, there was global confusion and panic surrounding COVID-19. At the same time, the Companies began to evaluate the potential economic impact of the suspension of disconnections on customer bills and the determination of

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[50] *See* Order 37125, Para. 8 at 7; Order 37153, Para. 7 at 5; Order 37189, Para. 9 at 5; Order 37251, Para. 8 at 6; Order 37284, Para. 6 at 5; Order 37507, Para. 6 at 8; Order 37667, Para. 7 at 7.

[51] *See* discussion in Section VII.D. above. *See also* Exhibits E through G.

the bad debt reserve and expense. The Companies' normal methodology for calculating the monthly allowance for bad debt accrual is based on a net write-off percentage factor which estimates on an accrual basis the amounts that will ultimately become uncollectible and written off. To adjust to the uncertainty associated with the crisis, the Companies enhanced their bad debt calculation review process by performing a more robust analysis of the latest operational statistics, customer bankruptcy/account closure list, local and national pandemic related current events, available assistance, and any related matters impacting the economy and made certain modifications to the bad debt expense accrual methodology. See the Companies' response to PUC-HECO-IR-04 included in the *Hawaiian Electric Companies' Responses to Commission Information Requests*, filed on December 21, 2021 in Docket No. 2020-0069 for further details on the process, methodology and calculation used for the bad debt expense and the amounts deferred in the regulatory asset.

Rather than base recovery on the bad debt expense accrued in the regulatory asset, the Companies propose to recover the actual net write-offs of uncollectible customer accounts associated with bills for the March 2020 through December 2021 period, less the bad debt expense amounts included in rates for this same period.[52] The net write-offs are the gross write-offs of uncollectible receivables net of any "recoveries" (i.e., payments that customers make after their accounts had already been written off).

The use of actual net write-offs will allow the recovery to align with the amounts and the timing of uncollectibles actually written off and reflect further reductions in the total recovery

[52] *See* Final D&O No. 35545 issued on June 22, 2018 in Hawaiian Electric 2017 test year rate case, Docket No. 2016-0328, Exhibit A, at 1; Hawai'i Electric Light Statement of Probable Entitlement filed on October 1, 2019 in Hawai'i Electric Light 2019 test year rate case, Docket No. 2018-0368, Attachment 5, at 1, which was approved by the Commission in Interim D&O No. 36761 (at 53) issued on November 13, 2019; and Parties' Joint Proposed Revised Schedules and Refund Plan filed on April 17, 2019 in Maui Electric 2018 test year rate case, Docket No. 2017-0150, Exhibit 1C, at 1, which was approved by the Commission in Order No. 36323 issued on May 16, 2019.

amount, as customers continue to seek available government assistance, pay on installment plans and other payments to offset unpaid bills incurred during the deferral period. The Companies will track such amounts collected from customers in a contra-regulatory asset, as further discussed in Section IX.A below. As such, the total recovery amount over the three-year period may be less than the total amount deferred in the regulatory asset as of December 31, 2021. The actual net write-offs for the June 2020-December 2021 period were $2,711,000,[53] compared to $27,369,000 of bad debt expense in the regulatory asset. The Companies expect that the actual net write-offs will continue through 2022, 2023 and into 2024, as the collection and disconnection process for bills that were due during the March 2020 through December 2021 period reaches a conclusion of nonpayment for certain customers including bankruptcy filings, and their receivable balances are written off. The Companies resumed disconnection of service for nonpayment in September 2021 and expect disconnections to trigger an increase in actual net write-offs in 2022.

The Companies began recording bad debt expense and other COVID-related costs in the regulatory asset beginning in March 2020. Under normal circumstances, account balances that remain unpaid ninety days after a final bill due date would be financially written off in accordance with the Companies' financial write-off process. Thus, the Companies propose to recover the actual net write-offs beginning in June 2020, rather than March 2020, because June 2020 is the earliest point in time that the Companies would begin to write-off unpaid final bills at the start of the pandemic in March 2020. As shown on the recovery table above, in the initial year of recovery, the Companies will recover the actual net write-offs incurred from June 2020 through December 2021. They anticipate proposing the recovery of these actual net write-offs

[53] *See* Exhibit B, column (c), and Exhibit C, column G, line 22.

through the RBA Rate Adjustment in the spring revenue report to be filed by March 31, 2023. The RBA Rate Adjustment would be effective from June 1, 2023 through May 31, 2024.

In the second year of recovery, the Companies would recover the actual net write-offs incurred for the period January 2022 through December 2022 through the RBA Rate Adjustment proposed in the 2024 spring revenue report and effective from June 2024 through May 2025. In the third year of recovery, the Companies would recover the actual net write-offs incurred during the period from January 2023 through March 2024 through the RBA Rate Adjustment proposed in the 2025 spring revenue report and effective from June 2025 through May 2026.

The regulatory asset balance of $27,369,000 for the Companies on a consolidated basis attributed to the bad debt expense above the amounts included in rates would also be adjusted down following the approval of each spring revenue report filing. The adjustment decreasing the regulatory asset balance would consist of the amortization of the approved recovery amount over the course of the June-May spring revenue report recovery period. The Companies will make such an adjustment in each year of the three-year recovery plan to reduce the regulatory asset balance. The amounts collected from customers for the deferral period and recorded in the contra-regulatory asset balance would also offset and effectively decrease the regulatory asset balance.

Although the Companies do not expect the actual net write-offs to exceed the amount of bad debt expense deferred in the regulatory asset as of December 31, 2021, the Companies in any case, will not propose to recover actual net write-offs in excess of this amount.

Exhibit I to this Application illustrates the accounting reconciliation for bad debt regulatory asset balance, including how the net write-off amounts above the amounts in rates will be used to determine the amount requested for recovery through the Z-Factor in the 2023, 2024 and 2025 spring revenue reports and how the amortization of the approved cost recovery amount and the contra regulatory asset described above would reduce the COVID-19 deferred cost regulatory asset balances over time. The Companies prepared this exhibit for illustrative purposes only and the amounts used for future years do not represent the Companies' forecast.

2) Other COVID-19 Costs

Other COVID-19 deferred costs amounted to $2,840,000 (i.e., $2,346,000 for Hawaiian Electric, $162,000 for Hawai'i Electric Light, and $331,000 for Maui Electric), as detailed in Exhibits A and B.[54] These recorded balances represent the actual costs incurred from March 2020 through December 2021, including financing, sequestration, software licensing, advertising, and increased sanitation, decontamination and personal protective equipment costs. Details of these amounts and what is included in these line items are described in the Fourth Quarter 2021 Reports, Attachment 1.

As these costs have already been incurred, the Companies request recovery of the full amount of these known costs in the initial recovery period from June 2023 through May 2024. These known costs will be offset against the cost savings recorded and discussed in the next section.

3) Cost Savings

The amounts requested for recovery for the initial recovery period from June 2023 through May 2024 based on actual net write-offs and other COVID-19 costs incurred during the pandemic will be offset by cost savings that were realized over the March 2020 through December 2021 period. Specifically, the Companies determined that cost savings were realized as a result of state mandates on travel and related internal Company measures that restricted local, domestic and foreign travel.

[54] *See* Exhibit A, lines 4-11, and Exhibit B, columns (d) through (f). Total may not add exactly due to rounding.

On March 4, 2020, Governor David Y. Ige issued an emergency proclamation in which he determined that the conditions brought about by the COVID-19 pandemic were of such character and magnitude to constitute an emergency or disaster.[55] Following the proclamation, the Governor enacted progressive restrictive measures on travel in order to mitigate the spread of COVID-19, including:

- Directing residents to avoid any discretionary travel.
- Ordering a mandatory 14-day quarantine for all individuals arriving or returning to the State of Hawai'i.
- Issuing an emergency order requiring all residents and visitors traveling between any of the islands in the State of Hawaii to self-quarantine for 14-days.

In step with the state's preventative measures, the Companies also instituted policies in response to the pandemic for employee safety. In early March 2020, the Companies suspended business travel to all foreign countries, the continental U.S., and neighbor islands, followed by a mandatory 14-day self-quarantine for employees if they or their household members traveled. In addition, in March 2020, the Companies strongly encouraged employees to work remotely if their job allowed and made it an official requirement in April 2020.

The state and the Companies' measures significantly decreased the Companies' travel activity and level of travel costs incurred, and have resulted in $2,370,000 for consolidated (i.e., $1,899,000 for Hawaiian Electric, $263,000 for Hawai'i Electric Light, and $208,000 for Maui Electric) in cost savings during this period.[56] These savings are presented at Exhibit D and were quantified by comparing actual incurred travel costs versus the amounts embedded in rates from the Companies' last fully litigated general rate cases, over the COVID-19 deferral period from

[55] *See* Proclamation, Office of the Governor, State of Hawai'i, issued on March 4, 2020, at https://governor.hawaii.gov/wp-content/uploads/2020/03/2003162-ATG_Third-Supplementary-Proclamation-for-COVID-19-signed.pdf. (Posted on March 5, 2020).

[56] *See* Exhibit A, line 12, Exhibit B, column (g), and Exhibit D, line 3.

March 2020 to December 2021. These savings are offset against the recovery of incremental COVID-19-related costs in the initial recovery period, as shown on Exhibit B.

As discussed above, the travel-related cost savings offered by the Companies to offset the incremental COVID-19 deferred costs are coupled with other actions aimed at assisting customers during these challenging economic times. On a more on-going basis, the Companies remain committed to providing exceptional value to customers through cost savings and efficiencies and have begun delivering on the $6.6 million in annual management audit savings pledged over the 2021-2025 period[57] in addition to the annual customer dividend prescribed under the new PBR framework.

4) Late Payment Fees

Beginning in April 2020, the Companies proactively suspended charging late payment fees for customers with arrears balances. On May 4, 2020, the Commission followed with an order imposing a disconnection moratorium, the suspension of the interest on past due payments and late payment fees through the end of the moratorium on May 31, 2021.[58] Subsequently, the Commission ordered all utilities, including the Companies, to retroactively waive all late payment fees and any interest charges incurred between the Governor's first COVID-19 related emergency proclamation on March 5, 2020 through May 31, 2021.[59] Following the end of the disconnection moratorium, the Companies provided a transition period to allow customers to sign up for payment arrangements on arrears balances, and starting in July 2021, began assessing a late payment fee on the arrears balance for those customers that did not have an active payment

[57] The annual management audit savings $4.6 million for Hawaiian Electric and $1.0 million for Hawai'i Electric Light and Maui Electric have been and will be included as a Subtractive Customer Dividend Component in the ARA Adjustment to be returned to customers through the respective Company's RBA Rate Adjustment for the 2021-2025 MRP period.

[58] *See* Order 37125 at 4-5.

[59] Order 37667, Section B.3, at 8.

arrangement in place. The total amount included in the regulatory asset is $2,202,000 on a consolidated basis (i.e., $1,227,000 for Hawaiian Electric, $628,000 for Hawai'i Electric Light, and $347,000 for Maui Electric)[60] for the non-collection of late payment fees above the amount included in the revenue requirement approved in the respective Company's last rate case for the period from March 5, 2020 through December 31, 2021.

Although these costs are revenues the Companies are allowed to earn consistent with the tariff provision under Rule No. 8, Section D, in recognition of the extraordinary economic pressure and challenges their customers endured and continue to experience as a result of the pandemic, the Companies are not seeking recovery of the $2,202,000 in late payment fees that are included in the regulatory asset balance as of December 31, 2021.

5) Carrying Costs and Return on Unamortized COVID-19 Deferred Cost Regulatory Assets

In recognition of the hardship endured by so many in the community, the Companies will not be requesting the carrying costs of and the return on the unamortized regulatory asset balance of the COVID-19 deferred costs, net of the associated ADIT. Based on the authorized rate of return on average rate base for each Company,[61] the carrying costs would amount to approximately $5.1 million, excluding revenue taxes, on a consolidated basis for the March 2020 through May 2023 period (i.e., $3.8 million for Hawaiian Electric, $0.6 million for Hawai'i Electric Light, and $0.7 million for Maui Electric), and the return on the unamortized COVID-19 deferred cost regulatory asset, net of the associated ADIT, would amount to approximately $2.0 million, excluding revenue taxes, on a consolidated basis for the initial recovery period from

[60] *See* Fourth Quarter 2021 Reports, Attachment 1 at 10; and First Quarter 2022 Reports, Attachment 1 at 3. Total may not add exactly due to rounding.

[61] Authorized rate of return on average rate base for Hawaiian Electric, Hawaii Electric Light and Maui Electric is 7.37%, 7.52% and 7.43%, respectively.

June 2023 through May 2024 (i.e., $1.5 million for Hawaiian Electric, $0.2 million for Hawaiʻi Electric Light, and $0.3 million for Maui Electric) in foregone recovery.

The Companies have taken this position in order to help minimize the impacts on customers, notwithstanding that other jurisdictions have allowed impacted utilities to earn a return or carrying costs on the unamortized balance of the regulatory asset in rate base.[62]

C. Z-FACTOR COST RECOVERY

The Companies propose utilizing the Z-Factor to recover the known COVID-19 costs. The COVID-19 costs qualify for cost recovery through the Z-Factor consistent with the PBR Framework. In the first instance, the COVID-19 pandemic is clearly an exogenous event to the Companies that was unanticipated and severe in impact and beyond the reasonable control of utility management. In fact, as explained in Section VII.C., there was consensus among the parties in the PBR proceeding that the COVID-19 pandemic would be an example of an exogenous event for which associated costs would be eligible for recovery through the Z-Factor. Moreover, the COVID-19 deferred costs meet the Z-Factor eligibility criteria as summarized below:

- The COVID-19 pandemic and the associated costs were unanticipated and outside the Companies' control as a prudently operating electric utility, as discussed Sections VII and VIII.
- The COVID-19 pandemic occurred after the respective Companies' test years (i.e., Hawaiian Electric 2017 test year,[63] Hawaiʻi Electric 2019 test year, and Maui Electric's 2018 test year) in which base rates were set and, therefore, the cost impacts of the COVID-19 are outside the base upon which rates were originally derived, as discussed in Section VIII.

[62] *See* Section VII.D. and Exhibits E through G for the further information on the recovery of deferred COVID-19 costs in other jurisdictions.

[63] Decision and Order No. 37387, issued on October 22, 2020 in Hawaiian Electric's 2020 test year rate case, Docket No. 2019-0085, approved, in part, final rates in the Parties' Joint Stipulated Settlement Letter filed on May 27, 2020, such that there would be <u>no increase in revenues recovered through customer rate schedules over the revenues established in the 2017 test year rate case, and no changes to the rates in those customer rate schedules for the 2020 test year</u>. The 2020 test year therefore did not address COVID-19-related costs.

- The deferred costs were reasonably and prudently incurred, as discussed in Section VIII.
- The deferred costs are not addressed by existing rates (as noted above) and there are no other sources available to the Companies to recover the deferred costs, such as by insurance, government aid, or indemnity from third parties.
- The deferred costs related to the COVID-19 pandemic have exceeded $4 million for Hawaiian Electric and $1 million each for Hawai'i Electric Light and Maui Electric, as shown on Exhibit A.

Accordingly, the deferred costs are eligible for recovery through the Z-Factor.

IX. ACCOUNTING AND RATEMAKING TREATMENT

A. Accounting Treatment

The Companies request recovery of known amounts over the three-year recovery period and to include such amounts as a Z-Factor adjustment in the spring revenue reports filed no later than March 31, which allows the RBA rates to be effective June 1. Specifically, for the initial recovery period from June 2023 through May 2024, the Companies are requesting in this Application recovery based on actual net write-offs incurred, less bad debt expense amount included in rates, during the period from June 2020 through December 2021, and actual other COVID-19 costs incurred, net of cost savings realized, during the deferral period from March 2020 through December 2021, and are requesting to include such costs in the 2023 spring revenue report.

Further, the Companies are requesting Commission approval to include known costs (i.e., net write-offs) incurred for calendar years 2022 and the period from January 2023 through March 2024 in the 2024 and 2025 spring revenue reports, respectively, such that the costs can then be reviewed and approved for inclusion in the RBA rates and the target revenues over the twelve-month period starting June 1 of the respective recovery years. This approach would allow the Companies more time to continue their efforts to collect past due balances from customers who have been or are having difficulty paying their electric bills and ensure that the Companies recover the actual costs incurred, instead of the estimated amount recorded in the COVID-19 deferred cost regulatory assets during the deferral period.

The amounts approved for recovery for the initial recovery period in this Application and for the subsequent recovery periods in the spring revenue reports will be amortized over the twelve-month period beginning June 1 to reduce the COVID-19 deferred cost regulatory asset balance.

Additionally, the Companies will establish a contra-regulatory asset to record the amounts collected from customers for bills associated with the deferral period from March 2020 through December 2021 that were previously considered uncollectable. This contra-regulatory asset account balance will be netted against the COVID-19 deferred cost regulatory asset. This enables the Companies to contain the recovery request to actual net write-offs of past due balances.

Since the Companies will not be requesting a return on the unamortized COVID-19 regulatory asset balance, they will not include the unamortized regulatory asset balance (and the above-mentioned contra-regulatory asset) in rate base for the earnings sharing purpose.

If the respective Companies' base rates are reset before the end of the three-year recovery period, the Companies will continue to include the COVID-19-related Z-Factor recovery amount in the spring revenue report to recover such amount through the RBA rate adjustment until May 31, 2026, which is when the approved recovery amount for the final recover period from June 2025 through May 2026 is fully amortized. Therefore, the Companies will not incorporate an unamortized COVID-19 deferred costs regulatory asset balance and the associated amortization in the revenue requirements which would be used to reset base rates in the next rate setting proceeding.

B. Reports to the Commission

In the spring revenue reports, the Companies plan to include the following:

1) A detail of activities to support the amounts requested for recovery through the Z-Factor; and

2) COVID-19 deferred cost regulatory asset balances until the balances are fully amortized or become zero.

The Companies also propose to cease reporting on the COVID-19 deferred costs, which has been filed quarterly in accordance with Non-Docketed Orders 37125, 37153, 37189, 37251, and 37284, Order Nos. 37506 and 37667 issued in Docket No. 2020-0209 and D&O 37192, 37666, and 37994 issued in Docket No. 2020-0069 for the following reasons:

- The Companies' deferral period ended on December 31, 2021;
- There has been no additional COVID-19 related costs associated with their deferral period added to the regulatory asset; and
- The Companies will report on the COVID-19 deferred cost regulatory asset balances in the spring revenue report.

C. Bill Impact

As the Companies are requesting recovery of the COVID-19 related costs through the spring revenue report which allows the RBA rate adjustment to be effective June 1, for the initial recovery period from June 1, 2023 through May 31, 2024, the projected average monthly bill impact for a typical residential customer using 500 kWh for each of the Companies would be (see Exhibit H):

- $0.22 at Hawaiian Electric
- $0.06 at Hawai'i Electric Light
- $0.31 at Maui Electric

X. CONCLUSION

Wherefore, the Companies respectfully request that the Commission approves their specific request for recovery of and accounting and ratemaking treatment for the COVID-19 related costs for which deferral was previously authorized by the Commission, as described in Section II herein, if possible by December 30, 2022, or the latest by January 16, 2023.

DATED: Honolulu, Hawai'i, June 9, 2022.

HAWAIIAN ELECTRIC COMPANY, INC.
HAWAI'I ELECTRIC LIGHT COMPANY, INC.
MAUI ELECTRIC COMPANY, LIMITED

By /s/ Tayne S. Y. Sekimura
Tayne S. Y. Sekimura
Senior Vice President, Chief Financial Officer & Treasurer
Hawaiian Electric Company, Inc.

Financial Vice President & Treasurer
Hawai'i Electric Light Company, Inc.
Maui Electric Company, Limited

Hawaiian Electric Companies
Summary of COVID-19 Costs Reflected as a Regulatory Asset
December 2021 / March 2022

Line No.		Hawaiian Electric	Hawai'i Electric Light	Maui Electric	Total	
1	Bad Debt Expense	$ 21,367,000	$ 3,974,000	$ 4,028,000	$ 29,369,000	
2	Kokua Fund Bill Credit	(1,400,000)	(300,000)	(300,000)	(2,000,000)	
3		$ 19,967,000	$ 3,674,000	$ 3,728,000	$ 27,369,000	
4	Financing Costs					
5	Amortization of issuance costs	645,000	-	-	645,000	
6	Interest Expense	673,000	-	-	673,000	
7		$ 1,318,000	$ -	$ -	$ 1,318,000	Exhibit B
8	Cleaning, PPE and Other non -labor costs	694,000	146,000	325,000	1,165,000	
9	Software and user licenses	111,000	-	-	111,000	
10	Sequestration Costs	8,000	15,000	7,000	30,000	
11	Advertising	216,000	-	-	216,000	
12	Cost Savings	(1,899,000)	(263,000)	(208,000)	(2,370,000)	Exhibit B
13	Recorded Regulatory Asset - COVID-19	$ 20,415,000	$ 3,572,000	$ 3,852,000	$ 27,839,000	
14	Cleaning, PPE & Other Non-labor Costs	1,028,000	162,000	331,000	1,521,000	Exhibit B

NOTE 1: Totals may not add exactly due to rounding.

NOTE 2: The Summary of COVID-19 Costs Reflected as a Regulatory Asset above (lines 1-13) was provided on page 10 of Attachment 1 to the Companies' COVID-19 Quarterly Reports filed on February 1, 2022 subject to the terms of Protective Order No. 37543 ("PO 37543") issued on January 12, 2021 and on February 14, 2022 on a non-confidential basis in Docket No. 2020-0209. The Regulatory Asset balances remain the same as of March 31, 2022, as reported in the Companies' COVID-19 Quarterly Reports filed on May 2, 2022 subject to the terms of PO 37543 and on May 9, 2022 on a non-confidential basis.

HAWAIIAN ELECTRIC COMPANIES
Request for Recovery of COVID-19 Related Costs
Recovery Period: June 2023 - May 2024

Year	Net Write-Off	Amount in Base Rates	Total Net Write-Off	Financing Costs	Cleaning, PPE & Other Non-Labor Costs	Total Other Costs	Cost Savings	Total Other Costs, Net of Cost Savings	Total Recovery Request	
	(a)	(b)	(c)= (a)+(b)	(d)	(e)	(f)=(d)+(e)	(g)	(h)=(f)+(g)	(i)= (c) + (h)	
HAWAIIAN ELECTRIC										
2020	596,811	(453,452)	143,358	1,087,347	483,101	1,570,448	(307,342)	1,263,106	1,406,464	
2021	2,703,820	(792,030)	1,911,790	231,131	544,765	775,896	(1,591,304)	(815,408)	1,096,382	
Total	3,300,631	(1,245,482)	2,055,148	1,318,478	1,027,866	2,346,344	(1,898,646)	447,698	2,502,846	Exhibit H, p. 2, 5
HAWAII ELECTRIC LIGHT										
2020	215,742	(204,004)	11,738	-	75,693	75,693	(96,367)	(20,674)	(8,936)	
2021	562,120	(356,717)	205,403	-	86,121	86,121	(166,732)	(80,611)	124,792	
Total	777,862	(560,721)	217,141	-	161,814	161,814	(263,099)	(101,285)	115,856	Exhibit H, p. 2, 5
MAUI ELECTRIC										
2020	185,976	(102,566)	83,410	-	151,870	151,870	(89,831)	62,039	145,449	
2021	534,817	(179,168)	355,649	-	179,545	179,545	(118,193)	61,352	417,001	
Total	720,793	(281,734)	439,059	-	331,415	331,415	(208,024)	123,391	562,450	Exhibit H, p. 2, 5
CONSOLIDATED TOTAL RECOVERY REQUEST										
2020	998,528	(760,022)	238,506	1,087,347	710,664	1,798,011	(493,540)	1,304,471	1,542,977	
2021	3,800,757	(1,327,915)	2,472,842	231,131	810,431	1,041,562	(1,876,229)	(834,667)	1,638,175	
Total	4,799,286	(2,087,937)	2,711,348	1,318,478	1,521,095	2,839,573	(2,369,769)	469,804	3,181,152	Exhibit H, p. 2, 5

SOURCES:
Columns (a)-(c): Exhibit C
Columns (d)-(g): Exhibit A
Column (g): Exhibit D

NOTE: Totals may not add exactly due to rounding.

Hawaiian Electric Companies
904 Uncollectible Accounts
Historical Write-offs and Recoveries

	A	B	C	D	E	G	
Line	Month/Year	Gross Write-Off	Gross Recoveries	Net Write-Offs	Less: Amount in Base Rates	Adjusted Net Write-Off Recovery Request	
		14401017	14401015	B-C		D-E	
1	Jun-20	$ 301,269	$ (59,660)	$ 241,609	$ 108,575	$ 133,035	
2	Jul-20	$ 191,156	$ (79,374)	$ 111,782	$ 108,575	$ 3,207	
3	Aug-20	$ 149,288	$ (73,106)	$ 76,182	$ 108,575	$ (32,393)	
4	Sep-20	$ 285,770	$ (195,718)	$ 90,052	$ 108,575	$ (18,523)	
5	Oct-20	$ 389,025	$ (277,234)	$ 111,791	$ 108,575	$ 3,217	
6	Nov-20	$ 267,691	$ (61,407)	$ 206,285	$ 108,575	$ 97,710	
7	Dec-20	$ 228,453	$ (67,625)	$ 160,828	$ 108,575	$ 52,254	
8	2020	$ 1,812,652	$ (814,123)	$ 998,528	$ 760,022	$ 238,506	Exhibit B
9	Jan-21	$ 224,959	$ (72,017)	$ 152,942	$ 110,660	$ 42,283	
10	Feb-21	$ 354,122	$ (68,630)	$ 285,492	$ 110,660	$ 174,833	
11	Mar-21	$ 335,653	$ (87,160)	$ 248,493	$ 110,660	$ 137,834	
12	Apr-21	$ 220,092	$ (81,649)	$ 138,444	$ 110,660	$ 27,784	
13	May-21	$ 404,316	$ (59,507)	$ 344,810	$ 110,660	$ 234,150	
14	Jun-21	$ 361,949	$ (78,325)	$ 283,624	$ 110,660	$ 172,964	
15	Jul-21	$ 340,563	$ (63,099)	$ 277,465	$ 110,660	$ 166,805	
16	Aug-21	$ 349,017	$ (55,042)	$ 293,975	$ 110,660	$ 183,315	
17	Sep-21	$ 306,006	$ (52,921)	$ 253,085	$ 110,660	$ 142,425	
18	Oct-21	$ 764,310	$ (46,470)	$ 717,840	$ 110,660	$ 607,180	
19	Nov-21	$ 534,775	$ (119,808)	$ 414,967	$ 110,660	$ 304,307	
20	Dec-21	$ 701,460	$ (311,839)	$ 389,622	$ 110,660	$ 278,962	
21	2021	$ 4,897,224	$ (1,096,466)	$ 3,800,757	$ 1,327,915	$ 2,472,842	Exhibit B
22	June 2020-Dec 2021	$ 6,709,875	$ (1,910,590)	$ 4,799,286	$ 2,087,937	$ 2,711,348	Exhibit B

NOTE: Totals may not add exactly due to rounding.

Hawaiian Electric Company, Inc
904 Uncollectible Accounts
Historical Write-offs and Recoveries

	A	B	C	D	E	G	
Line	Month/Year	Gross Write-Off	Gross Recoveries	Net Write-Offs	Less: Amount in Base Rates	Adjusted Net Write-Off Recovery Request	
		14401017	14401015	B-C		D-E	
1	Jun-20	$ 225,036	$ (35,657)	$ 189,379	$ 64,779	$ 124,600	
2	Jul-20	$ 107,106	$ (47,325)	$ 59,781	$ 64,779	$ (4,998)	
3	Aug-20	$ 99,038	$ (50,230)	$ 48,808	$ 64,779	$ (15,971)	
4	Sep-20	$ 173,931	$ (154,185)	$ 19,746	$ 64,779	$ (45,033)	
5	Oct-20	$ 312,907	$ (250,372)	$ 62,535	$ 64,779	$ (2,244)	
6	Nov-20	$ 148,394	$ (44,042)	$ 104,352	$ 64,779	$ 39,573	
7	Dec-20	$ 152,551	$ (40,341)	$ 112,210	$ 64,779	$ 47,431	
8	2020	$ 1,218,963	$ (622,153)	$ 596,811	$ 453,452	$ 143,358	Exhibit B
9	Jan-21	$ 149,249	$ (56,168)	$ 93,081	$ 66,003	$ 27,078	
10	Feb-21	$ 284,498	$ (48,766)	$ 235,732	$ 66,003	$ 169,730	
11	Mar-21	$ 200,324	$ (63,147)	$ 137,177	$ 66,003	$ 71,175	
12	Apr-21	$ 113,142	$ (45,538)	$ 67,605	$ 66,003	$ 1,602	
13	May-21	$ 313,095	$ (36,391)	$ 276,705	$ 66,003	$ 210,702	
14	Jun-21	$ 240,897	$ (51,991)	$ 188,906	$ 66,003	$ 122,903	
15	Jul-21	$ 243,587	$ (35,069)	$ 208,518	$ 66,003	$ 142,515	
16	Aug-21	$ 203,663	$ (37,609)	$ 166,054	$ 66,003	$ 100,052	
17	Sep-21	$ 197,362	$ (31,174)	$ 166,188	$ 66,003	$ 100,185	
18	Oct-21	$ 654,058	$ (35,609)	$ 618,449	$ 66,003	$ 552,446	
19	Nov-21	$ 386,360	$ (99,061)	$ 287,299	$ 66,003	$ 221,296	
20	Dec-21	$ 400,035	$ (141,927)	$ 258,108	$ 66,003	$ 192,105	
21	2021	$ 3,386,270	$ (682,449)	$ 2,703,820	$ 792,030	$ 1,911,790	Exhibit B
22	June 2020-Dec 2021	$ 4,605,233	$ (1,304,602)	$ 3,300,631	$ 1,245,482	$ 2,055,149	Exhibit B

NOTE: Totals may not add exactly due to rounding.

Hawaii Electric Light Company, Inc.
904 Uncollectible Accounts
Historical Write-offs and Recoveries

	A	B	C	D	E	G	
Line	Month/Year	Gross Write-Off	Gross Recoveries	Net Write-Offs	Less: Amount in Base Rates	Adjusted Net Write-Off Recovery Request	
		14401017	14401015	B-C		D-E	
1	Jun-20	$ 37,743	$ (17,208)	$ 20,535	$ 29,143	$ (8,609)	
2	Jul-20	$ 47,882	$ (18,496)	$ 29,386	$ 29,143	$ 243	
3	Aug-20	$ 30,990	$ (11,487)	$ 19,503	$ 29,143	$ (9,640)	
4	Sep-20	$ 74,155	$ (10,700)	$ 63,455	$ 29,143	$ 34,312	
5	Oct-20	$ 46,108	$ (19,627)	$ 26,482	$ 29,143	$ (2,661)	
6	Nov-20	$ 54,317	$ (13,351)	$ 40,966	$ 29,143	$ 11,822	
7	Dec-20	$ 33,956	$ (18,542)	$ 15,415	$ 29,143	$ (13,729)	
8	2020	$ 325,152	$ (109,410)	$ 215,742	$ 204,004	$ 11,738	Exhibit B
9	Jan-21	$ 38,357	$ (8,975)	$ 29,382	$ 29,726	$ (345)	
10	Feb-21	$ 42,046	$ (8,639)	$ 33,407	$ 29,726	$ 3,680	
11	Mar-21	$ 57,676	$ (10,771)	$ 46,905	$ 29,726	$ 17,179	
12	Apr-21	$ 53,891	$ (17,030)	$ 36,861	$ 29,726	$ 7,135	
13	May-21	$ 49,913	$ (8,359)	$ 41,553	$ 29,726	$ 11,827	
14	Jun-21	$ 64,882	$ (14,869)	$ 50,013	$ 29,726	$ 20,286	
15	Jul-21	$ 63,755	$ (9,953)	$ 53,802	$ 29,726	$ 24,075	
16	Aug-21	$ 82,922	$ (11,910)	$ 71,012	$ 29,726	$ 41,286	
17	Sep-21	$ 64,517	$ (14,360)	$ 50,157	$ 29,726	$ 20,430	
18	Oct-21	$ 46,026	$ (9,025)	$ 37,001	$ 29,726	$ 7,274	
19	Nov-21	$ 74,663	$ (15,630)	$ 59,034	$ 29,726	$ 29,307	
20	Dec-21	$ 216,190	$ (163,197)	$ 52,993	$ 29,726	$ 23,267	
21	2021	$ 854,840	$ (292,720)	$ 562,120	$ 356,717	$ 205,403	Exhibit B
22	June 2020-Dec 2021	$ 1,179,992	$ (402,130)	$ 777,862	$ 560,721	$ 217,141	Exhibit B

NOTE: Totals may not add exactly due to rounding.

Maui Electric Company, Limited
904 Uncollectible Accounts
Historical Write-offs and Recoveries

	A	B	C	D	E	G	
Line	Month/Year	Gross Write-Off	Gross Recoveries	Net Write-Offs	Less: Amount in Base Rates	Adjusted Net Write-Off Recovery Request	
		14401017	14401015	B-C		D-E	
1	Jun-20	$ 38,490	$ (6,795)	$ 31,696	$ 14,652	$ 17,043	
2	Jul-20	$ 36,167	$ (13,553)	$ 22,614	$ 14,652	$ 7,962	
3	Aug-20	$ 19,260	$ (11,389)	$ 7,871	$ 14,652	$ (6,781)	
4	Sep-20	$ 37,683	$ (30,833)	$ 6,850	$ 14,652	$ (7,802)	
5	Oct-20	$ 30,010	$ (7,235)	$ 22,774	$ 14,652	$ 8,122	
6	Nov-20	$ 64,981	$ (4,013)	$ 60,967	$ 14,652	$ 46,315	
7	Dec-20	$ 41,945	$ (8,742)	$ 33,203	$ 14,652	$ 18,551	
8	2020	$ 268,537	$ (82,561)	$ 185,976	$ 102,566	$ 83,410	Exhibit B
9	Jan-21	$ 37,353	$ (6,873)	$ 30,480	$ 14,931	$ 15,549	
10	Feb-21	$ 27,578	$ (11,225)	$ 16,353	$ 14,931	$ 1,422	
11	Mar-21	$ 77,654	$ (13,243)	$ 64,411	$ 14,931	$ 49,480	
12	Apr-21	$ 53,058	$ (19,081)	$ 33,978	$ 14,931	$ 19,047	
13	May-21	$ 41,308	$ (14,757)	$ 26,552	$ 14,931	$ 11,621	
14	Jun-21	$ 56,170	$ (11,465)	$ 44,705	$ 14,931	$ 29,775	
15	Jul-21	$ 33,222	$ (18,076)	$ 15,145	$ 14,931	$ 215	
16	Aug-21	$ 62,431	$ (5,523)	$ 56,908	$ 14,931	$ 41,977	
17	Sep-21	$ 44,127	$ (7,387)	$ 36,740	$ 14,931	$ 21,809	
18	Oct-21	$ 64,226	$ (1,836)	$ 62,390	$ 14,931	$ 47,460	
19	Nov-21	$ 73,751	$ (5,117)	$ 68,635	$ 14,931	$ 53,704	
20	Dec-21	$ 85,235	$ (6,715)	$ 78,521	$ 14,931	$ 63,590	
21	2021	$ 656,114	$ (121,297)	$ 534,817	$ 179,168	$ 355,649	Exhibit B
22	June 2020-Dec 2021	$ 924,651	$ (203,858)	$ 720,793	$ 281,734	$ 439,059	Exhibit B

NOTE: Totals may not add exactly due to rounding.

Hawaiian Electric Companies
Cost Savings - Covid Cost Recovery
December 2021

		A	B	C	D = sum (A:C)	
		Hawaiian	Hawaii Electric	Maui		
Line No.	Description	Electric	Light	Electric	Total	
1	Recorded Travel	233,000	110,000	197,000	540,000	
2	Test Year Travel	2,132,000	373,000	405,000	2,910,000	
3 = 1 - 2	Savings	(1,899,000)	(263,000)	(208,000)	(2,370,000)	Exhibit B, column (g)

Notes:

1. Line 1 represents recorded travel costs from April 2020 through December 2021.
2. Line 2 represents test year travel costs escalated to 2020 and 2021 values based on the GDPPI utilized for annual decoupling filings. Test year travel costs are per Hawaiian Electric 2017 Test Year Rate Case, Docket No. 2016-0328, Hawaii Electric Light 2019 Test Year Rate Case, Docket No. 2018-0368, and Maui Electric 2018 Test Year Rate Case, Docket No. 2017-0150.

RRA REGULATORY FOCUS

Utility shut-off bans, while ending, continue to challenge utility financials

Tuesday, December 28, 2021 11:49 AM ET

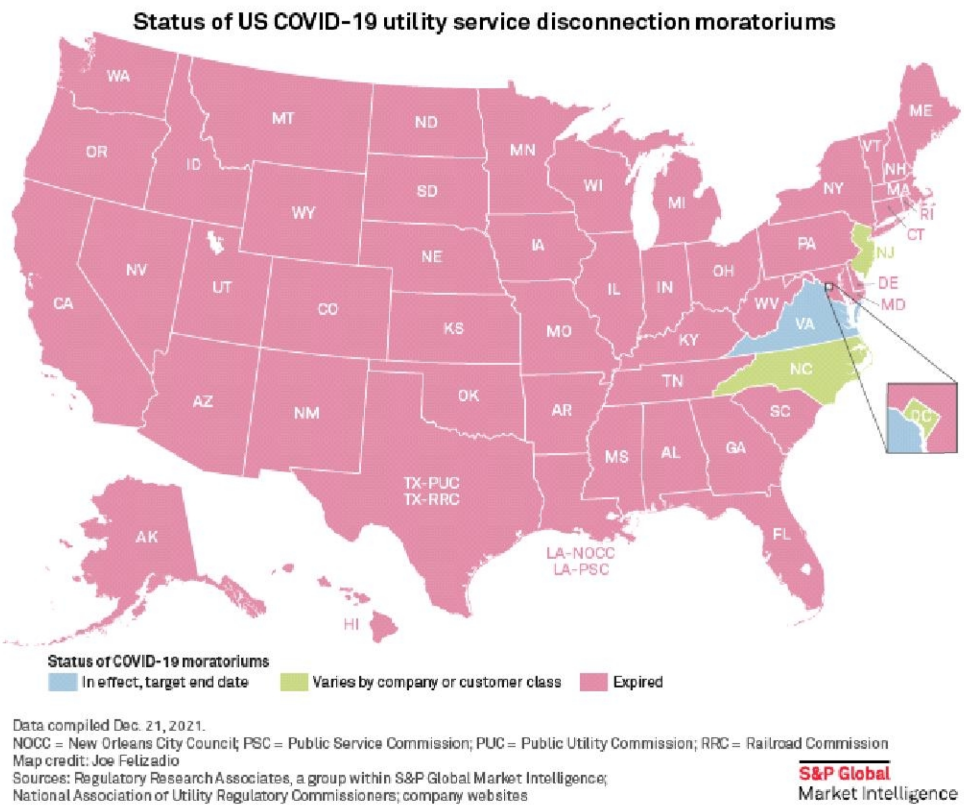
By Lillian Federico
Market Intelligence

While disconnection moratoriums implemented in response to the economic uncertainties for ratepayers caused by the COVID-19 pandemic have come to an end for some, if not all, customers in most jurisdictions across the U.S., the repercussions of these policies for utilities will continue to be felt in 2022 and beyond. These impacts will be magnified if the spread of new variants of the coronavirus lead to shutdowns of business and government offices and increases in unemployment rates seen when the pandemic began.

The Take

Disconnection moratoriums related to COVID-19 have expired in 49 of the 53 state-level regulatory jurisdictions followed by Regulatory Research Associates, and the rest will expire soon. While regulatory mechanisms in place in some states allowed the utilities to address these costs, at least partially, on an expedited basis, the moratoriums continue to challenge utility cash flows. Deferral of COVID-19-related costs is permitted in roughly 40 jurisdictions, but deferral is not a guarantee of recovery and does not alleviate cash flow constraints in the near term. The treatment to be accorded COVID-19-related regulatory assets has begun to crop up in rate cases and has not been controversial so far. Even so, the need to recover these costs comes at a time when utilities are facing other challenges that put upward pressure on rates, shrinking headroom for recognition of new investments. Apart from COVID-19-related moratoriums on disconnections, many states have annual weather-related shut-off moratoriums in place.

Data gathered by RRA indicates that as of Dec. 21, utility shut-off moratoriums had expired for all customers in 49 of the 53 state-level jurisdictions followed by RRA, with the expiration of New York's COVID-19 moratorium. A mandatory prohibition remains in place for all customers in Virginia that expires Dec. 31. In the District of Columbia, the moratorium remains in place for low-income customers through Jan. 10, 2022. In New Jersey, the ban theoretically ended June 30, 2021, but customers on payment plans are exempt until year-end. In North Carolina, the mandatory moratorium has expired, but Duke Energy Corp.'s operating companies have voluntarily extended the moratorium through March 31, 2022.



Recovery of COVID-19-related deferred costs is putting upward pressure on rates at a time when utilities and regulators are grappling with several other factors that are challenging utility cash flow metrics and placing additional upward pressure on rates at a time when utilities and regulators are struggling to moderate impacts on customers in an uncertain economy. These other factors include the need to address costs associated with the energy transition, including potential stranded costs, increased frequency of major storms and rate recognition of the associated restoration costs, and aggressive capital spending plans. According to a recent report published by S&P Global Market Intelligence, projected 2022 capital expenditures for the 47 energy utilities included in RRA's sample of the publicly traded U.S.-based utility universe currently exceed $146 billion, well above 2021's expected $141 billion investment level and 2020's $130 billion actual level.

According to S&P Global Ratings, in general, utilities with prolonged moratoriums on disconnections had a higher level of bill payment delinquencies, and overall, the moratoriums led to a 10% reduction in the utility industry's cash flow in 2020. While some operating cash flow improvement occurred in the sector in the first half of 2021, Ratings said the industry's operating cash flows remain about 5% behind pre-pandemic levels on a normalized basis after accounting for the impacts of extreme weather.

Coupled with bill increases associated with rising inflation and the prospect of increasing interest rates, the aforementioned challenges will continue to put downward pressure on authorized equity returns at a time when it could be argued that industry and regulatory risk are on the rise.

Authorized returns on equity have been on a downward trajectory since the 1980s, following a similar trend in interest rates. After holding rates near zero for several years, the Federal Reserve began raising the federal funds rate in 2015. Before the pandemic hit, and after more than a decade without a cut, the Fed lowered rates three times in 2019 due to signs of a slowing economy. When the coronavirus outbreak shut down the U.S. economy in March 2020, the Fed took swift action, cutting the federal funds rate to near zero and beginning to purchase Treasury and mortgage-backed securities to provide additional economic stimulus. However, in the wake of rising inflation, the Fed has given a clear indication that it will begin tightening the monetary policy in the near future.

The average ROEs authorized electric utilities was 9.41% in rate cases decided in the first nine months of 2021, in line with the 9.44% average for cases in full year 2020. The average ROE authorized gas utilities was 9.54% in cases decided in the first nine months of 2021 versus 9.46% in full year 2020.

For a more in-depth discussion of recent trends in rate cases and authorized ROEs, refer to RRA's Major Rate Case Decisions Quarterly Updates.

COVID-19 cost recovery overview

Some states have mechanisms that can, to varying degrees, implicitly address the costs and lost revenues for utilities associated with these shut-off moratoriums. However, many of these mechanisms contain provisions that limit their ability to fully address the various impacts.

Formula-based ratemaking plans are in place for at least one utility in 14 jurisdictions. These plans allow for periodic adjustments in rates to reflect incremental changes in revenues, expenses and capital investment using a preestablished equity return.

As a result, these types of mechanisms would implicitly recognize changes to revenues and expenses related to the COVID-19 pandemic. However, in many instances, there are caps on the amount that rates can adjust in any one update; amounts above the caps would be deferred and recognized in future adjustments or to offset future changes as appropriate.

Earnings-sharing plans, which are in place for at least one or more utilities in 26 jurisdictions, may also at least partially address increased costs and lost revenue, but that would only be to the extent that the mechanism is symmetrical and allows the company to increase rates for underearnings.

Mechanisms are in place in 11 jurisdictions that allow expedited cost recovery or tracking of incremental uncollectibles costs for one or more of the energy utilities in the respective jurisdictions.

In 22 jurisdictions, full revenue decoupling mechanisms are in place for one or more of the utilities that could mitigate the declines in revenue. A "full decoupling mechanism" is one that is designed to adjust for fluctuations, positive or negative, in revenues caused by variations in weather, customer participation in energy conservation programs, and broader economic impacts such as COVID-19. These mechanisms may have caps on the level of rate changes that can be put through the mechanism in a given year, but generally speaking, amounts above the caps may be deferred for recovery in future adjustments or ultimately through base rates.

In addition to the above, Georgia, North Dakota and Ohio have straight-fixed variable rate designs in place that allow 100% of fixed costs to be recovered through fixed monthly charges so even if sales volumes fall, the utilities are recovering their unavoidable costs, which include a return on assets. These mechanisms do not address revenue volatility that results from a fluctuation in the number of customers.

Existing regulatory mechanisms that may implicitly address COVID-19 impacts

Formula-based ratemaking	Earnings sharing		Expedited recovery of uncollectibles	Full decoupling	
Alabama	Alabama	Mississippi	Dist. of Columbia	Arizona	Massachusetts
Arkansas	Arkansas	Nevada	Illinois	California	Nevada
Georgia	Connecticut	New Hampshire	Indiana[1]	Connecticut	New Hampshire
Hawaii	Florida	New Mexico	Maryland[1]	Georgia	New Jersey
Illinois	Georgia	New York	New Jersey	Hawaii	New York
Louisiana — NOCC	Hawaii	Oklahoma	Ohio	Idaho	North Carolina
Louisiana — PSC	Idaho	Oregon	Pennsylvania[1]	Illnois	Oregon
Maine	Iowa	Rhode Island	Rhode Island	Indiana	Rhode Island
Massachusetts	Kansas	South Dakota	Texas — RRC	Louisiana — NOCC	Utah
Minnesota	Louisiana — NOCC	Vermont	Utah	Maine	Vermont
Mississippi	Louisiana — PSC	Virginia	Virginia[1]	Maryland	Washington
Tennessee	Maine	Washington			
Texas — RRC	Massachusetts	Wisconsin			
Vermont					

As of Dec. 21, 2021.
NOCC=New Orleans City Council; PSC=Public Service Commission; PUC=Public Utility (ies) Commission; RRC=Railroad Commission
[1] Incremental expenses tracked.
Source: Regulatory Research Associates, a group withinn S&P Global Market Intelligence.

Apart from these mechanisms, regulators have been addressing COVID-19 cost recovery on an issue-specific basis to varying degrees. By RRA's count, 38 of 53 state-level regulatory jurisdictions have authorized deferral of COVID-19-related costs on a generic or company-specific basis.

Deferral is generally a well-received option because, in the short run, it mitigates the impact of the deferred costs on utility earnings without an immediate impact on ratepayers. However, it does nothing to bolster cash flow and may negatively impact coverage ratios. In addition, it is not a guarantee of recovery. When the time comes to recover these deferrals, it is likely that stakeholders will have different views on:

* Which costs are recoverable.
* The length of the recovery period.
* The return, if any, to be applied to the deferred balance.
* Whether the company should absorb a portion of the costs due to the extraordinary circumstances.

Although the Minnesota Public Utilities Commission approved the deferral of the utilities' "costs to respond" to COVID-19 in May 2020, in a May 2021 decision, the PUC denied a request by ALLETE Inc. subsidiary Minnesota Power Inc. to defer losses of large industrial customer sales resulting from the COVID-19 pandemic.

Five jurisdictions have implemented alternative recovery mechanisms for certain companies. In Texas, the PUC authorized the utilities to defer COVID-19-related costs but also established a separate nonbypassable charge on utility rates to fund incremental bad debt for retail electric providers in the area of the state where competition for electric retail generation service is permitted.

In Georgia and South Dakota, where deferral was approved for some companies, the commissions indicated that for other utilities, COVID-19-related costs would be addressed through other mechanisms that were already in place.

In New Hampshire, the PUC indicated that COVID-19-related costs could be addressed through one company's decoupling mechanism.

In Utah, deferral was approved for an electric utility, while a gas utility indicated that a large portion of its incremental bad debt expense would be addressed through its periodic fuel filings and so a separate mechanism was not necessary. Even so, a proceeding remains open in which the Public Service Commission of Utah is reviewing the pandemic's impact on the utilities and their customers.

In California, legislation has been enacted that would allow the utilities to securitize COVID-19-related balances following approval by the California Public Utilities Commission. Similar legislation was introduced in South Carolina but failed to be enacted.

Securitization has been employed widely across the utility industry for a variety of purposes. As it pertains to utilities, securitization refers to the issuance of bonds backed by a specific existing revenue stream that has been "guaranteed" by regulators and/or state legislators. Securitization is viewed as an attractive option because it allows regulators to reduce the customer rate impacts related to the recovery of a particular utility asset. The carrying charge on the asset would be the lower interest rate applied to a highly rated, usually AAA, corporate bond as compared to the utility's weighted average cost of capital, which includes both equity and debt components, or even the interest rate applied to typical utility corporate bonds, which are generally rated BBB and carry higher interest rates.

In five states, regulators and/or state policymakers issued strong statements at the inception of the moratoriums indicating that any arrearages were to be addressed on a customer-specific basis, implying they would not be inclined to socialize these costs by allowing the utilities to defer the costs as regulatory assets that would ultimately be recovered from all customers. However, in three of these states, proceedings were later opened to examine alternative recovery methods.

Consideration of COVID-19-related costs is underway in eight states, excluding jurisdictions where the commission has already approved deferral for at least one company.

A specific COVID-19 cost recovery strategy has not been established in five jurisdictions. In one of these states, Alabama, all of the utilities operate under formula rate plans, and other alternative regulation mechanisms are in place that would allow the costs to be addressed in whole or in part.

In Maine, the companies have been filing periodic reports detailing the costs and investments made in relation to the pandemic and the disconnection moratorium; the final report was due July 15. The commission is examining "lessons learned," but there is apparently no specific discussion surrounding cost recovery.

The Montana Public Service Commission rejected the companies' requests to establish a regulatory asset for COVID-19-related costs. In West Virginia, there is no alternative ratemaking mechanism in place to address COVID-19 impacts on utilities, and neither regulators nor legislators have taken steps to do so.

In Vermont, where the disconnection moratorium was voluntary, the companies were directed to file plans for reinstating disconnections post-moratorium and customer repayment plans with the commission; no other cost recovery details were addressed. Similarly, the Public Service Commission of West Virginia has taken no discernible action with respect to cost recovery.

COVID-19 cost recovery provisions for utilities

Deferral[1]		Other treatment[3]	Customer-specific plans	Pending	No mechanism specified
Alaska	Minnesota	Georgia	Colorado	Arizona	Alabama
Arkansas	Mississippi	New Hampshire	New Hampshire[4]	Kentucky	Maine
California	Nebraska	South Dakota	North Carolina[4]	New Hampshire[4]	Montana[5]
Connecticut	Nevada	Texas PUC[2]	Ohio	New York	West Virginia
Delaware	New Hampshire[2]	Utah	Rhode Island[4]	North Carolina[4]	
Dist. of Columbia	New Jersey			Rhode Island4	
Florida	New Mexico			South Carolina	
Georgia[2]	North Dakota			Tennessee	
Hawaii	Oklahoma			Vermont	
Idaho	Oregon				
Illinois	Pennsylvania				
Indiana	South Dakota				
Iowa	Texas PUC[2]				
Kansas	Texas-RRC				
Louisiana NOCC	Utah				
Louisiana PSC	Virginia				
Maryland	Washington				
Massachusetts	Wisconsin				
Michigan	Wyoming				

Data compiled as of Dec. 21, 2021.
NOCC= New Orleans City Council; PSC=Public Service Commission; PUC= Public Utilitie(s) Comission;
RRC=Railroad Commission
[1] Deferral approved for at least one company or on a generic basis.
[2] Deferral of COVID-19 costs was approved for certain utilities, other mechanisms were employed for others.
[3] COVID-19 costs are to be addressed through a decoupling or other adjustment mechanism for at least one utility.
[4] Governor/commission directive initially called for customer repayment. An investigation has since been opened that could lead to other cost recovery options.
[5] One company-specific rrequest for deferral was rejected and another was withdrawn.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence.

In the early days of the pandemic, rate case activity was suppressed due to logistical concerns as well as utility reluctance to file cases when the economy was in turmoil. Although rate case activity began to pick up in the latter part of 2020, many of the cases were resolved by settlements that called for the utilities to postpone the implementation of new rates for several months beyond the end of the case and use various accounting measures to mitigate the near-term impacts of the approved revenue requirement increases.

These strategies included continuing to defer costs, such as storm restoration expenses, that would otherwise have been addressed in the then-current cases, suspending or extending the amortization periods for existing regulatory assets, accelerating the return to ratepayers of regulatory liabilities, such as excess accumulated deferred federal income tax balances that arose with the 2018 reduction in federal corporate income taxes, or some combination of the foregoing. While expedient from the viewpoint of keeping rates as low as possible in the near term, these strategies placed additional pressure on utility cash flows and, all else being equal, will put upward pressure on rates in the longer term, eroding headroom for recovery of new future investment.

Also in the latter half of 2020, RRA began to see requests for recovery of COVID-19-related deferrals crop up in base rate cases. Thus far, recovery has not been particularly contentious. As expected, commissions are generally allowing recovery of any related deferrals to occur over a few years, with varying treatment with respect to allowing a return on the unamortized balance. However, in some instances, regulators are requiring the companies to continue to defer some, if not all, of their COVID-19-related costs. Examples of how the issue has been or is being addressed are provided below. This list is not intended to be comprehensive.

In a combined electric and gas rate case decision for Exelon Corp. subsidiary Baltimore Gas and Electric Co. issued in December 2020, the Maryland Public Service Commission approved recovery of the company's COVID-19 regulatory asset over a five-year period, with the unamortized balance to be included in rate base for a cash return. The company was also authorized to recover lost revenues for late payment fees and service application/reconnection fees over five years, but the amortized balance will be excluded from rate base.

In a rate case decision issued for affiliate Potomac Electric Power Co. in June, the Maryland PSC allowed the company to recover COVID-19 deferred balances over a five-year period, with no return on the unamortized balance associated with lost revenues. In a pending rate case, affiliate Delmarva Power & Light Co. seeks to begin recovering over a three-year period the portion of the COVID-19 regulatory asset that is not related to uncollectible/write-off expenses, which would be handled in a future case.

On July 8, the Florida Public Service Commission approved a settlement allowing NextEra Energy Inc. subsidiary Gulf Power Co. to amortize over three years and recover the COVID-19 regulatory asset established by the settlement through the Fuel and Purchased Power Cost Recovery clause mechanism. The carrying cost on the unamortized amount of the regulatory asset is to be set at the 2022 test-year embedded long-term cost of debt of 3.61%, subject to annual adjustment.

On the same day, the PSC authorized Chesapeake Utilities Corp. subsidiary Florida Public Utilities Co. to establish a regulatory asset to include COVID-19-related incremental expenses for bad-debt write-offs, personal protective equipment, cleaning, and business information services for remote working incurred through June 30. Florida Public Utilities is to amortize the asset over two years through the Purchased Gas Adjustment and Swing Service mechanisms for the natural gas business units and through the Fuel and Purchased Power Cost Recovery clause mechanism for the electric division. Florida Public Utilities will not record any further amounts to the regulatory asset after June 30, and any incremental costs associated with the COVID-19 pandemic incurred after June 30 will be categorized as a separate event.

In rate case decisions for Exelon Corp. subsidiary Atlantic City Electric Co., New Jersey Resources Corp. subsidiary New Jersey Natural Gas Co., and Consolidated Edison Inc. subsidiary Rockland Electric Co. in July, November and December, respectively, the New Jersey Board of Public Utilities adopted settlements that did not address the treatment to be accorded regulatory assets related to COVID-19 but called for the companies to continue to accrue the deferrals, including a return.

In New York, a three-year electric and gas rate plan approved for Central Hudson Gas & Electric Corp. on Nov. 18 calls for the company to continue to defer COVID-19-related costs; however, the company is to convene a collaborative process with the New York Public Service Commission staff to discuss issues related to arrears resolution. The company is a subsidiary of Fortis Inc.

A settlement adopted by the Pennsylvania Public Utility Commission in August in a rate case for UGI Corp. subsidiary UGI Utilities Inc. allows the company to recover COVID-19 deferred balances over a three-year period, with the unamortized balance included in rate base. Similar treatment was approved for Exelon Corp. subsidiary PECO Energy Co. and Duquesne Light Co. in rate case settlements adopted Nov. 18 and Dec. 16, respectively. A settlement adopted by the PUC on Dec. 16 in a rate case for NiSource Inc. subsidiary Columbia Gas of Pennsylvania Inc. allows the company to amortize its COVID-19 regulatory asset over five years, with a return on the unamortized balance.

In Virginia, Dominion Energy Inc. subsidiary Virginia Electric and Power Co. and American Electric Power subsidiary Appalachian Power Co. are subject to periodic earnings reviews that look at historical earnings. Appalachian Power's most recent review was completed in 2020 and looked at utility performance for 2017, 2018 and 2019, prior to the pandemic's onset. Theoretically, the treatment to be accorded Appalachian Power's COVID-19 regulatory asset will be addressed in the next review, which will be conducted in 2023 and cover 2020, 2021 and 2022.

Virginia Electric and Power's latest review covered 2017 through 2020 and was completed in November 2021, when the Virginia State Corporation Commission adopted a settlement that did not explicitly address COVID-19 issues.

A settlement adopted by the Virginia State Corporation Commission in a rate case for Southern Co. subsidiary Virginia Natural Gas Inc. calls for the company to continue to defer and maintain as a regulatory asset costs associated with the COVID-19 pandemic, with recovery of the asset to be addressed in a future rate case or adjustment clause proceeding.

A settlement adopted Nov. 18 in a Wisconsin rate case for Xcel Energy Inc. subsidiary Northern States Power Co. allows for the utility to continue to defer all costs incurred in 2020 and 2021 related to COVID-19.

In a pending rate case filed in July in Indiana, American Electric Power Co. Inc. subsidiary Indiana Michigan Power Co. proposes to include in rate base certain COVID-19 bad-debt costs the Indiana Utility Regulatory Commission previously authorized for deferral treatment. The company estimates the deferred costs will total $2 million at the end of the test year. An additional $3 million of deferred COVID-19 operations and maintenance expenses would be amortized over two years.

Southwest Gas Holdings Inc., in a pending rate case for its Southern and Northern divisions, notes that its filing reflects amortization of a regulatory asset stemming from the company's voluntary suspension of utility service disconnections in light of the COVID-19 outbreak. The asset includes suspended late payment charges accumulated from April 1, 2020, through March 31, 2021.

NiSource Inc. subsidiary Columbia Gas of Ohio Inc. seeks recovery of deferred costs associated with the COVID-19 pandemic and "foregone revenues" in the context of a base rate case filed in late June.

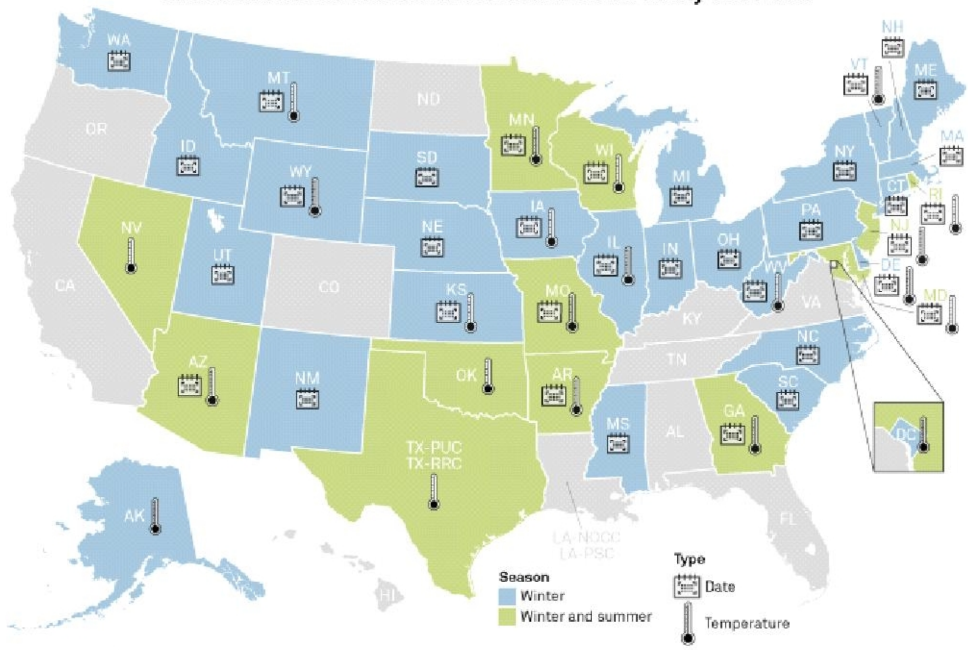
In a pending rate case before the Public Utility Commission of Texas, El Paso Electric Company proposes to amortize its COVID-19 regulatory asset over three years with the unamortized balance included in rate base. Similar treatment is being sought by Xcel Energy subsidiary Southwestern Public Service Co. in its pending Texas rate case. Settlement discussions are underway in the latter proceeding.

Seasonal annual disconnection moratoriums

While the sweeping nature and long-term duration of the COVID-19-related moratoriums on utility disconnections for nonpayment garnered a great deal of attention over the last two years, it is noteworthy that in many states, seasonal moratoriums have been in place for some time. Recovery of the related costs of these programs has been addressed through the traditional ratemaking process and has posed no particular threat to customer rates or utility financial performance.

According to data gathered by RRA, 41 of the 53 covered jurisdictions have some type of weather-based moratorium on utility shut-offs. Of these, 28 have provisions that prohibit service terminations during specific winter months or when temperatures fall below a certain threshold. The other 13 have rules in place that preclude the utility from disconnecting customers for nonpayment during both winter and summer seasons, by designated day or based on temperatures falling below certain benchmarks and above others.

Jurisdictions with seasonal moratoriums on utility shut-offs



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Data gathered as of Dec. 21, 2021.
NOCC = New Orleans City Council; PSC = Public Service Commission; PUC = Public Utility (ies) Commission; RRC = Railroad Commission
Map credit: Ciaralou Agpalo Palicpic
Sources: Regulatory Research Associates, a group within S&P Global Market Intelligence; U.S. Department of Health and Human Services; National Association of Regulatory Utility Commissions.

Outlook

While prohibitions on nonpayment-related utility shut-offs have been in place and largely unremarked upon for many years, the extensive application and extended duration of the COVID-19-related moratoriums present challenges that the traditional season programs have not. There are mechanisms in place in some jurisdictions that, to some extent, allowed for expeditious treatment of the direct costs and/or lost revenue. In a great number of jurisdictions, the utilities were able to defer the extraordinary costs, which limited the earnings impact in the near term but did not address constrained cash flows and, by extension, credit metrics. Now that the moratoriums have largely come to an end, assuming they are not reinstated as new variants arise, regulators must begin to address recovery of the costs and any associated deferred balances. On a stand-alone basis, the issue might not be all that daunting, but these issues need to be addressed at a time when there are other substantial industry-specific challenges facing utilities and their regulators — energy transition-related costs and stranded costs, storm cost recovery, and aggressive capital spending plans to meet various public policy objectives — and broader economic challenges such as inflation, rising interest rates and potential increases in corporate tax rates that must also be addressed. All else being equal, these considerations will lead to rising utility bills at a time when ratepayer tolerances for rate increases will be on the decline. Ironically, while this confluence of events represents an increasing risk for utility investors, which all else aside would argue for higher authorized equity returns, the trend is likely to go in the opposite direction.

For select supporting data underlying the charts in this article, refer to "Utility shut-off bans, while ending, continue to challenge utility financials — data."

Regulatory Research Associates is a group within S&P Global Market Intelligence.

For a complete, searchable listing of RRA's in-depth research and analysis, please go to the S&P Capital IQ Pro Energy Research Library.

For a full listing of past and pending rate cases, rate case statistics and upcoming events, visit the S&P Capital IQ Pro Energy Research Home Page.

Joe Felizadio and Ciaralou Palicpic contributed to this article.

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Regulatory Research Associates

Focus Notes

**Monday
March 21, 2022**

NATIONAL NEWS

FERC

Focus on FERC – ROE saga continues, Maine renewable transmission project planned

by Jim O'Reilly

Just a week after the Federal Energy Regulatory Commission reaffirmed that AES Corp. subsidiary Dayton Power & Light Co. is ineligible for an incentive return on equity adder for participating in a regional transmission organization, or RTO, the Office of the Ohio Consumers' Counsel filed a complaint at FERC targeting the same incentive for three other utilities in Ohio. The company, or DP&L, does business as AES Ohio.

In other noteworthy developments at the commission over the last month, a subsidiary of Consolidated Edison Inc. asked FERC for authority to charge negotiated rates for its proposed transmission project that would connect renewable energy projects in northern Maine to the transmission system of ISO New England, or ISO-NE, in southern Maine.

FERC also asked for comments on a series of questions related to transmission planning and cost allocation arising from a meeting of the Joint Federal-State Task Force on Electric Transmission in February.

In the natural gas sector, the commission set for hearing a general rate case filed by TC Energy Corp. subsidiary ANR Pipeline Co. seeking a systemwide general increase to its rates, a 15.7% return on equity and approval of a new tracker mechanism to recover system modernization costs. ANR's filing generated protests and comments by dozens of stakeholders.

CONTINUED ON PAGE 20

Jurisdictions Included

Click on jurisdiction to advance to story(s)

Colorado	Michigan	Missouri
Hawaii	Minnesota	Ohio

MULTI-JURISDICTIONAL

Emerging trends in several jurisdictions could signal shifts in regulatory risk

by Lillian Federico

As 2022 gets underway, Regulatory Research Associates identified 10 state-level jurisdictions that could experience noteworthy changes in the level of regulatory risk for investors in light of ongoing issues and proceedings in those jurisdictions. These changes could lead to near-term modifications to RRA's regulatory rankings accorded to these jurisdictions.

In RRA's view, the California regulatory climate bears continued watching in two respects. The probation judge overseeing PG&E Corp. subsidiary Pacific Gas and Electric Co.'s five-year felony probation, which ended Jan. 25, called the company a "continuing menace" and suggested customer safety might better be served if the utility was broken up. Separately, the California Public Utilities Commission recently announced it would delay any decision on changes to solar net metering policy until further notice. The proposal would slash payments for solar power exported to the grid under the state's net energy metering program, impose new fixed charges and negate a previously agreed grandfathering policy.

CONTINUED ON PAGE 23

Electric, gas rate case activity remains steady amid inflationary pressures

by Lisa Fontanella

The pace of state-level rate case activity has remained steady, with 85 electric and gas rate proceedings pending in 29 states as of March 10.

In 2021, rate case activity neared all-time highs with about 150 decisions issued by state public utility commissions, the highest level since the early 1980s.

With inflation running hotter than it has for decades and the prospect for rising interest rates, rate case activity is likely to remain elevated in 2022.

CONTINUED ON NEXT PAGE

MULTI-JURISDICTIONAL *continued*

COVID-19 pandemic

With utility disconnection moratoriums implemented in the wake of the COVID-19 pandemic coming to an end for most, if not all, customers in most states, issues related to the recovery of related costs are beginning to be addressed in rate cases.

Thus far, recovery has not been particularly contentious. So far, commissions have generally allowed recovery of any related deferrals to occur for a few years, with varying treatment with respect to allowing a return on the unamortized balance. However, in some instances, regulators require the companies to continue to defer some, if not all, of their COVID-19-related costs.

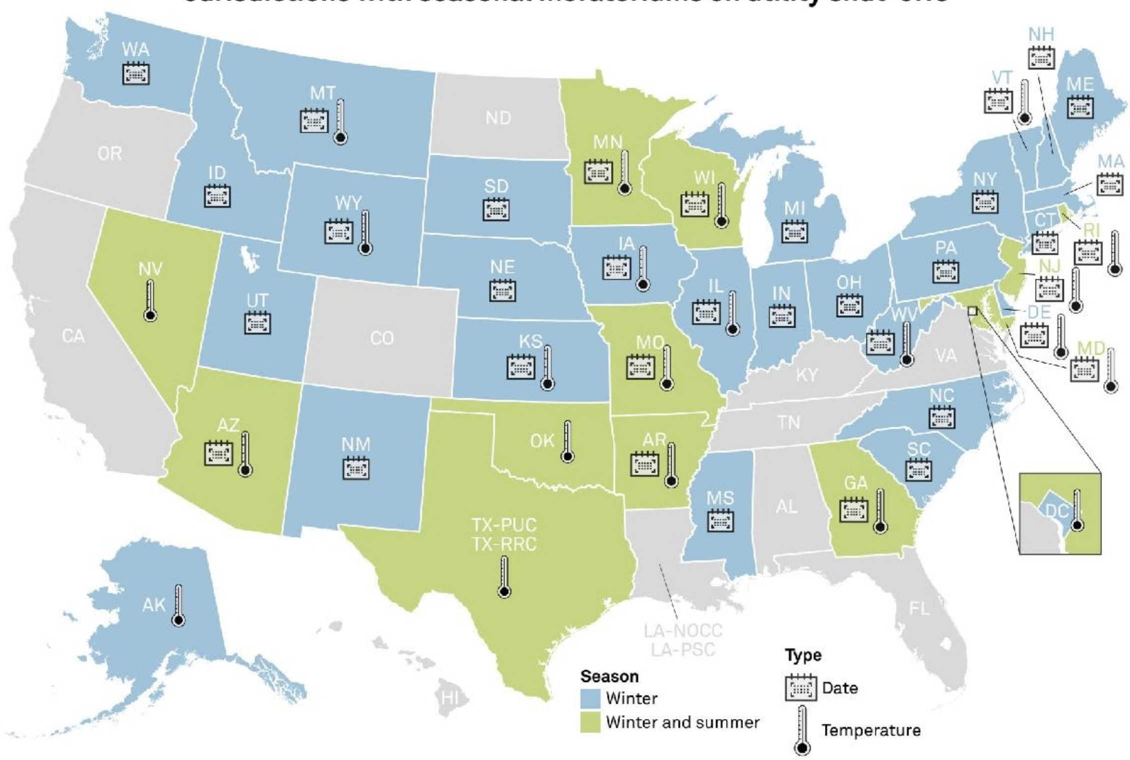
As of March 3, utility shut-off moratoriums had expired for all customers in 52 of the 53 state-level jurisdictions followed by RRA. In North Carolina, the mandatory moratorium has expired, but Duke Energy Corp.'s operating companies have voluntarily extended the moratorium through March 31.

It is important to note that these moratoriums are separate from the seasonal moratoriums employed by many states, some of which were expanded in response to the pandemic.

Like energy transition stranded costs and extraordinary storm costs, recovery of COVID-19-related deferred costs is putting upward pressure on rates at a time when regulators are grappling with providing the utilities rate recognition for robust utility capital spending plans.

As of late 2021, capital spending for the 47 major investor-owned utility holding companies in RRA's coverage universe was expected to aggregate to $427 billion over the years 2021 through 2023.

Jurisdictions with seasonal moratoriums on utility shut-offs



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Data gathered as of Dec. 21, 2021.
NOCC = New Orleans City Council; PSC = Public Service Commission; PUC = Public Utility (ies) Commission; RRC = Railroad Commission
Map credit: Ciaralou Agpalo Palicpic
Sources: Regulatory Research Associates, a group within S&P Global Market Intelligence; U.S. Department of Health and Human Services; National Association of Regulatory Utility Commissions.

COVID-19 Cost Recovery Requests Approved in Other Jurisdictions[1]

STATE	DOCKET NO./ORDER	DECISION
Maryland	Exelon Corp. subsidiary Baltimore Gas and Electric Co. [Rate Case] Case No. 9645; Order No. 89678 (Issued: December 16, 2020)	• Recover COVID-19 regulatory asset over a five-year period, with the unamortized balance to be included in rate base and earn a return on rate base. Any unamortized lost revenues for late payment fees and service application/reconnection fees, net of savings, will not be included in rate base.
	Exelon Corp. subsidiary Delmarva Power & Light Co. [Rate Case] Case No. 9670; Order No. 90098 (Issued: February 15, 2022; Final: March 2, 2022)	• Recover COVID-19 regulatory asset over a five-year period, with the unamortized balance to be included in rate base and earn a return on rate base. Any unamortized lost revenues for late payment fees and service application/reconnection fees, net of savings, will not be included in rate base.
	Potomac Electric Power Co. ("Pepco") [Rate Case] Case No. 9655; Order No. 89868 (Issued: June 28, 2021)	• Recover COVID-19 regulatory asset over a five-year period, with the unamortized balance to be included in rate base and earn a return on rate base. Any unamortized lost revenues for late payment fees and service application/reconnection fees, net of savings, will not be included in rate base.
Florida	NextEra Energy Inc. subsidiary Gulf Power Co. [Non-Rate Case] Order No. PSC-2021-0267-S-PU (Issued: July 22, 2021)	• Amortize over three years and recover the COVID-19 regulatory asset related to safety-related expenses and incremental bad debt incurred due to COVID-19 through June 30, 2021 through the Fuel and Purchased Power Cost Recovery clause mechanism. • The carrying cost on the unamortized amount of the regulatory asset is to be set at the 2022 test-year embedded long-term cost of debt of 3.61%, subject to annual adjustment.
	Chesapeake Utilities Corp. subsidiary Florida Public Utilities Co. [Non-Rate Case] Order No. PSC-2021-0266-S-PU (Issued: July 22, 2021)	• Amortize over two years and recover the COVID-19 regulatory asset safety-related expenses and incremental bad debt incurred due to COVID-19 through June 30, 2021 through the Fuel and Purchased Power Cost Recovery clause mechanism for the electric division.
Pennsylvania	UGI Corp. subsidiary UGI Utilities Inc. – Electric Division [Rate Case] Docket No. R-2021-3023618; Opinion and Order (Issued: October 28, 2021); Settlement Agreement (Filed: July 19, 2021)	• The revenue increase reflect a three-year amortization of the COVID-19 deferred balances related to incremental uncollectible accounts expense, with the unamortized balance included in rate base.

[1] This list is not intended to be comprehensive.

STATE	DOCKET NO./ORDER	DECISION
	Exelon Corp. subsidiary PECO Energy Co. [Rate Case] Docket No. R-2021-3024601; Opinion and Order (Issued: November 18, 2021); Settlement Agreement (Filed: September 15, 2021)	• Settlement Rates reflect a three-year amortization of the COVID-19 incremental bad debt expense.
	Duquesne Light Co. [Rate Case] Docket No. R-2021-3024750; Opinion and Order (Issued: December 16, 2021); Settlement Agreement (Filed: September 3, 2021)	• Recover deferred COVID-19 uncollectible accounts through an amortization of such costs over 36 months.

COVID-19 Deferred Cost Revenue Requirement and Bill Impact
12 Months Amortization Recovery

Period	Hawaiian Electric COVID-19 Deferred Costs Revenue Requirement	Sales Forecast[1] (MWh)	Rate Impact ¢/kWh	**Bill Impact 500 kWh[1]**
June - Dec 2023	1,602,363	3,801,030	0.0422	$ **0.21**
Jan - May 2024	1,144,545	2,473,032	0.0463	$ **0.23**
Total	**2,746,909**		*Average*	$ **0.22**
NPV @ 6.88%	**2,501,004**			

Period	Hawaii Electric Light COVID-19 Deferred Costs Revenue Requirement	Sales Forecast[1] (MWh)	Rate Impact ¢/kWh	**Bill Impact 500 kWh[2]**
June - Dec 2023	74,173	609,630	0.0122	$ **0.06**
Jan - May 2024	52,981	406,584	0.0130	$ **0.07**
Total	**127,154**		*Average*	$ **0.06**
NPV @ 7.00%	**115,595**			

Period	Maui Electric COVID-19 Deferred Costs Revenue Requirement	Sales Forecast[1] (MWh)	Rate Impact ¢/kWh	**Bill Impact 500 kWh[3]**
June - Dec 2023	360,090	610,339	0.0590	$ **0.29**
Jan - May 2024	257,207	400,641	0.0642	$ **0.32**
Total	**617,297**		*Average*	$ **0.31**
NPV @ 6.94%	**561,663**			

Notes:
1. The sales forecast used for 2023 includes June - December 2023 and 2024 includes January - May 2024 to match the short-term recovery period.
2. Hawaiian Electric typical residential energy consumption, per month
3. Hawaii Electric Light typical residential energy consumption, per month
4. Maui Electric typical residential energy consumption, per month

COVID-19 Deferred Cost Revenue Requirement and Bill Impact
Revenue Requirements Model
Assumptions

Manual input
HECO TY2020 Rate Case Dkt 2019-0085 Final D&O 37387

Cost of Capital Assumptions	Weight	Rate	Weighted Average	After-Tax Weighted Average	Weighted Average Revenue Requirement	Weighted Average Gross-up for Income Taxes
Short Term Debt	0.58%	2.50%	0.01%	0.01%	0.016%	0.01%
Long Term Debt (Taxable Debt)	41.42%	4.55%	1.88%	1.40%	2.068%	1.88%
Hybrids	0.00%	0.00%	0.00%	0.00%	0.000%	0.00%
Preferred Stock	0.85%	5.33%	0.05%	0.05%	0.067%	0.06%
Common Stock	57.15%	9.50%	5.43%	5.43%	8.026%	7.31%
	100.00%		7.37%	6.885%	10.177%	9.272%

Tax Assumptions		Effective
Federal Income Tax Rate	21.00%	19.74%
State Income Tax Rate	6.40%	6.02%
		25.75%

State Investment Tax Credit (ITC)	4.00%	
Accelerated State ITC Amortization Period[1]	10	
Public Service Company Tax	5.885%	
PUC Fee	0.500%	
Franchise Tax	2.500%	
Composite Revenue Tax Rate	8.885%	1.09751

Project Assumptions

Depreciation		
Expected Useful Life	-	
MACRS Tax Life ("Tax Life")	-	half-year convention, table A-1
Tax Class Life ("Class Life")	-	half-year convention, table A-8

COVID-19 Deferred Costs	2020/2021	
HECO - Requested Recovery Costs - Covid 19[2]	$ 2,502,846	Exhibit B
HELCO - Requested Recovery Costs - Covid 19[2]	$ 115,856	
MECO - Requested Recovery Costs - Covid 19[2]	$ 562,450	
Total	3,181,152	

Amortization Start Date[3]	6/1/2023
Year 1 Amortization Allocation (June - Dec 2023)	58%
Year 2 Amortization Allocation (Jan - May 2024)	42%
Escalation Rate	2.0%

Notes:
1. Per HECO 2020 TY Rate Case Parties' Stipulated Settlement Letter in Docket No. 2019-0085, State ITC Amortization accelerated over a ten-year period.
2. Deferred costs related to the COVID-19 pandemic include bad debt write-offs and other COVID-19 related costs, net of cost savings for the period March 2020 - December 2021, provided by Finance & Business Planning Customer Service.
3. Recovery of deferred COVID-19 costs will be amortized over a 12-month period beginning June 1, 2023.

Manual input

HELCO TY2019 Rate Case Dkt 2018-0368 PUC Final D&O 37237

Cost of Capital Assumptions	Weight	Rate	Weighted Average	After-Tax Weighted Average	Weighted Average Revenue Requirement	Weighted Average Gross-up for Income Taxes
Short Term Debt	0.61%	3.75%	0.02%	0.02%	0.025%	0.02%
Long Term Debt (Taxable Debt)	40.59%	4.79%	1.94%	1.44%	2.134%	1.94%
Hybrids	0.80%	7.83%	0.06%	0.05%	0.069%	0.06%
Preferred Stock	1.17%	8.12%	0.09%	0.09%	0.140%	0.13%
Common Stock	56.83%	9.50%	5.40%	5.40%	7.980%	7.27%
	100.00%		7.52%	7.001%	10.349%	9.429%

Manual input

MECO TY2018 Rate Case Dkt 2017-0150 Final D&O No. 36219

Cost of Capital Assumptions	Weight	Rate	Weighted Average	After-Tax Weighted Average	Weighted Average Revenue Requirement	Weighted Average Gross-up for Income Taxes
Short Term Debt	1.37%	3.00%	0.04%	0.03%	0.045%	0.04%
Long Term Debt (Taxable Debt)	38.68%	4.54%	1.76%	1.30%	1.928%	1.76%
Hybrids	1.96%	7.16%	0.14%	0.10%	0.154%	0.14%
Preferred Stock	0.98%	8.15%	0.08%	0.08%	0.118%	0.11%
Common Stock	57.02%	9.50%	5.42%	5.42%	8.007%	7.30%
	100.00%		7.43%	6.935%	10.251%	9.341%

COVID-19 Deferred Cost Revenue Requirement and Bill Impact

Deferred Cost Revenue Requirement

Assumption	Deferred Costs Amortized over 12 Months (6/1/23-5/31/24)[1]			
2020-2021 Costs (Exhibit B)	$ 2,502,846	$ 115,856	$ 562,450	
	HE Revenue Requirement	HL Revenue Requirement	ME Revenue Requirement	Total Revenue Requirement
Period	1.0975	1.0975	1.0975	
June - Dec 2023	1,602,363	74,173	360,090	2,036,626
Jan - May 2024	1,144,545	52,981	257,207	1,454,733
Total	2,746,909	127,154	617,297	3,491,359

Notes:

1. Recovery of deferred COVID-19 costs will be amortized over a 12-month period beginning June 1, 2023.

Hawaiian Electric Company, Inc.
June 2021 Budget Sales Forecast
Total Sales (GWH)

Year	Month	Total Sales (GWH)
2023	6	515.8
2023	7	560.2
2023	8	583.6
2023	9	558.4
2023	10	557.9
2023	11	518.1
2023	12	507.0
2024	1	502.8
2024	2	471.2
2024	3	488.9
2024	4	495.2
2024	5	514.9

June 2023 - May 2024 sales forecast provided by Forecasting Department

Hawaii Electric Light
June 2021 Budget Sales Forecast
MWh

Year	Month	MWh Sales Fcst
2023	6	82,186
2023	7	88,769
2023	8	90,540
2023	9	85,529
2023	10	88,299
2023	11	86,496
2023	12	87,810
2024	1	85,829
2024	2	78,571
2024	3	82,316
2024	4	79,344
2024	5	80,525

June 2023 - May 2024 sales forecast provided by Forecasting Department

Maui Electric Company, Ltd.
June 2021 Budget Sales Forecast
MWh

Year	Month	Maui	Lanai	Molokai	ME Consolidated
2023	6	75,825	2,966	2,227	81,018
2023	7	82,786	3,075	2,307	88,168
2023	8	83,792	3,187	2,429	89,408
2023	9	78,816	3,117	2,442	84,376
2023	10	84,194	3,119	2,390	89,702
2023	11	83,126	2,999	2,250	88,375
2023	12	83,916	3,088	2,288	89,292
2024	1	79,540	2,850	2,168	84,558
2024	2	73,506	2,627	1,946	78,078
2024	3	74,885	2,980	2,114	79,979
2024	4	72,637	2,889	2,117	77,643
2024	5	75,353	2,909	2,121	80,383

June 2023 - May 2024 sales forecast provided by Forecasting Department

Accounting Reconciliation for Bad Debt Regulatory Asset Balance
Illustrative Purposes Only - Does Not Represent Company Forecast

Net Write-Off Amounts

Year	Net Write-Off Amount	Escalated Amount in Rates	Estimated Bad Debt Recovery Request
June 2020-Dec 2020	998,528	760,022	238,506
2021	3,800,757	1,327,916	2,472,841
2022	6,500,000	-	6,500,000
2023	4,500,000	-	4,500,000
2024	1,157,653	-	1,157,653
Total	16,956,939	2,087,938	14,869,000

Recovery Request (Spring Revenue Report Filing)

Year of Request	Estimated Bad Debt Recovery Request
2023	2,711,347
2024	6,500,000
2025	5,657,653
	14,869,000

Regulatory Asset Balance Reconciliation

Year	Beg Reg Asset Bal- Bad Debt Only[1]	Estimated Payments Received - Recorded to Contra Regulatory Asset	Estimated Amortization of Approved Cost Recovery Amount - Per Revenue Filing Reducing Regulatory Asset Balance	Estimated Ending Regulatory Asset Balance
End of 12/31/2021	27,369,000	-	-	27,369,000
2022	27,369,000	(7,500,000)	-	19,869,000
2023	19,869,000	(4,000,000)	(1,581,619)	14,287,381
2024	14,287,381	(1,000,000)	(4,921,395)	8,365,986
2025	8,365,986		(6,008,631)	2,357,355
2026	2,357,355		(2,357,355)	(0)
Total		(12,500,000)	(14,869,000)	

Summary of COVID-19 Cost Reflected as Regulatory Asset (Consolidated) (Exhibit A)

27,369,000	Bad Debt Expense[1]
1,318,000	Financing Cost
1,165,000	Cleaning, PPE, and Other non-labor costs
111,000	Software and user licenses
30,000	Sequestration Costs
216,000	Advertising
(2,370,000)	Cost Savings
27,839,000	Total

Note 1: Represents only the Regulatory Asset balance attributed to Bad Debt Expense as of 12/31/2021.

VERIFICATION

STATE OF HAWAI'I)
) ss.
CITY AND COUNTY OF HONOLULU)

TAYNE S. Y. SEKIMURA, being first duly sworn, deposes and says: That she is the Senior Vice President, Chief Financial Officer & Treasurer of Hawaiian Electric Company, Inc. and the Financial Vice President & Treasurer of Hawai'i Electric Light Company, Inc. and Maui Electric Company, Limited, Applicants in the above proceeding; that she makes this verification for and on behalf of said Applicants and is authorized so to do; that she has read the foregoing Application, and knows the contents thereof; and that the same are true of her own knowledge except as to matters stated on information or belief, and that as to those matters she believes them to be true.

/s/ Tayne S. Y. Sekimura
Tayne S. Y. Sekimura

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAIʻI

In the Matter of the Application of HAWAIIAN ELECTRIC COMPANY, INC. HAWAIʻI ELECTRIC LIGHT COMPANY, INC. and MAUI ELECTRIC COMPANY, LIMITED For Approval to Recover Deferred Costs Associated with the COVID-19 Pandemic Emergency.	DOCKET NO.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Application, Exhibits A through I and Verification, together with this Certificate of Service, was duly served on the following party, by electronic mail service as set forth below:

Dean Nishina
Executive Director
Division of Consumer Advocacy
Department of Commerce and Consumer Affairs
335 Merchant Street, Room 326
Honolulu, Hawaiʻi 96813
dnishina@dcca.hawaii.gov
consumeradvocate@dcca.hawaii.gov

DATED: Honolulu, Hawaiʻi, June 9, 2022.

/s/ Ayako Yamamoto
Ayako Yamamoto
HAWAIIAN ELECTRIC COMPANY, INC.